



# ***JPRS Report***

# **China**

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# China

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## SOVIET UNION

### Gorbachev's Reform and New Thinking Criticized

#### Comments in Book Termed 'Pure Nonsense'

40050026 Hong Kong CHENG MING  
[CONTENDING] in Chinese No 131, Sep 88 pp 92-94

[Article by Li Yu 2621 3768: "An Overblown Soviet Communist Reform—Comments on Gorbachev's *Reform and New Thinking*"]

[Text] The CPSU Central Committee General Secretary Gorbachev has gained international renown for his serious reform efforts and has become one of the most influential men in the contemporary world. At the request of a U.S. publisher, he has written a book, *Reform and New Thinking*, which was published simultaneously in Russian and English in November 1987 by the Political Books Publishing House in the Soviet Union and Harper & Row in the United States, respectively. In coordination with its own reform and in order to understand the world better, China has translated the book in record speed based on the Russian text, and the book was published by Xinhua Publishing House for "internal distribution" in November 1987. The translator noted in the introduction that Gorbachev's book "re-evaluates Stalin's industrialization and agricultural collectivization programs of the 1930's, the CPSU's 20th Party Congress and Khrushchev's policies, the economic reforms which began in 1965 under Brezhnev and Kosygin, as well as a series of other major historical issues. The book introduces in detail the basis and substance, the measures and procedure, and the problems and prospects of the present reform in the Soviet Union. It also expounds on the Soviet Union's foreign policy and new thinking, including the Soviet Union's relationships with China, the United States, Europe, Asia, the Middle East, Latin America and other countries and regions."

Having read this book, this author is not impressed. Except for some new viewpoints on the theory of war, this "new thinking" has made no major breakthroughs.

Actually, the impetus behind Soviet Union's reform is merely the recognition of its stagnant economy, but the Soviet reform starts with political reform, that is, it begins with changes in the ranks of the cadres and the removal of many of Brezhnev's people. Gorbachev has been emphasizing "democracy," "openness," "self-determination," and "autonomy," because he needs to remove all obstacles to economic reform, and in order to eliminate obstacles, he must consolidate his own power. In other words, Gorbachev's reform in the past two years, basically, had only a short-term objective—to consolidate and expand his own power. There has been little economic reform to speak of, and political reform has been limited to the implementation of the tenure

system among the leading cadres and the election of factory leaders. The "superiority of socialism," the planned economy, and collectivization have remained intact.

#### Gorbachev on Reform

"Reform is the determination to overcome the stagnant conditions and replace the obstructive mechanisms with reliable and effect mechanisms which expedite socioeconomic development so as to energize the economy.

"Reform means relying on the vitality and the creativity of the people to amplify democracy fully, develop socialist autonomy, encourage initiative and independence, reinforce discipline and order, and in every aspect in society, we want more openness, criticisms and self-criticisms, and more respect for human value and dignity." (Author's remark: the last phrase makes the Soviet Union more progressive than Communist China. The Communist Chinese never speak of "human value and dignity." On the contrary, during the era of cleaning up spiritual pollution, Hu Qiaomu even wrote a grandiose article in HONGQI criticizing human values and dignity.)

"Reform is the determination to become more scientific, to learn to make sure that every creation has a firm scientific base, so that the accomplishments of the scientific and technological revolution are integrated into the planned economy."

"Reform means giving priority to developing the social domain and to satisfy to a growing extent the Soviet people's demand for better work conditions, living and leisure conditions, and education and medical services, and to always show concern for the spiritual wealth and cultural standards of the individual and of society as a whole."

"Reform means society must abandon ways which distort socialist morals and steadfastly uphold righteous social principles. Society must live up to promises, unite rights and responsibilities, advocate honest, quality work, and overcome egalitarianism and consumerism in the way workers are being compensated."

Gorbachev declared that "this is what we think today's reform should be." As for the reform object, Gorbachev said, "we understand clearly the final goal of reform. We want to thoroughly reform various aspects of life in this country, to give socialism the most modern form of society, and to demonstrate fully the humanitarian nature in every decisive aspect of our system, that is, in the economic, the socio-political, and the moral aspects.... The essence of reform lies exactly in its integration of socialism and democracy and the complete revival of theory and in practice, of Lenin's socialist construction concept." (Author's remark: It was Lenin's creation of the theory of systematic totalitarianism which brought

disaster to all socialist countries. For a discussion of Lenin's totalitarianism, please see this author's "The Spread of Lenin's Totalitarianism in China," CHENG MING, Oct 88.)

### Reform Does Not Deviate From Socialism

Gorbachev said, "some people secretly hope (author's remark: he probably meant the Soviet intellectuals,) and others openly worry (author's remark: he probably meant the party old liners): does reform signify a departure from socialism? Might it at least undermine the foundation of socialism?"

"Some people in the West have imposed on us the idea that socialism is in serious crisis, that it has led society to a dead end. This is their kind of critical analysis to explain the situation in our country in the late 1970's and the early 1980's. They say that we have only one solution, and that is, drift toward capitalism. (Author's remark: what is wrong with the capitalistic way of business management? Today, China is adopting these capitalistic management methods.)

"Some people say that implementing reform within the framework of the present system will prove fruitless, and they even suggest that we change our system and seek help from the methods and experiences of a different form of socio-political system. They also suggest that if we follow this path and abandon socialism, a system we have chosen for ourselves, then we will be able to vanquish all obstacles to our relations with the West. They even go so far as to say that the 1917 October Revolution was a mistake, as if the revolution had taken our people and our country away from the great road of social progress." (Author's remark: No doubt, the October Revolution was definitely a mistake. If Lenin had not wallowed in the then already obsolete "violent revolution," if he had not overthrown the joint provisional democratic government led by Kerensky, leader of the Socialist Party, the Soviet Union, with their rich underground resources and above ground materials, and with their small population, could have reached long time ago the same level of living standard as Sweden's today—the average per capita annual income in Sweden is \$19,000. Were it not for the October Revolution, foreign capitalists would not have lost their assets and businesses in the Soviet Union to confiscation, and of course the Western nations would not have intervened militarily, and there might not have been a Stalin massacre later. The Soviet people owe their plight to the October Revolution.)

Gorbachev said, "We make various changes in accordance with the socialist choice. We seek answers to all problems in real life within the realm of socialism, not outside of socialism. We rely on socialist standards to gauge our accomplishments and mistakes in everything we do. Those who hope that we will deviate from the socialist path will certainly be very disappointed."

Gorbachev pointed out emphatically that socialist problems were not created by socialism, rather, "they are the product of our failure to uphold steadfastly, or worse yet, our deviation and distortion of the socialist principle." Today, "socialist superiority has been given only minimal play."

### Criticizing the United State's Pseudo-Democracy

Gorbachev said, "we declare democratization to be the basis of our reform. We have legalized the election of leaders and formation of workers' collective committees and other activities at the levels of production teams, workshops, and enterprises." He also boasted that the Soviet system was "the integration of direct democracy and the system of representative democracy," that it was a "unique system," and the most "effective form" in the world today. He went on to criticize the United State's pseudo-democracy, and said that some political activists and media in the U.S. "are very skillful in playing word games with democracy, but it is only when the workers and employees can freely elect the likes of plant managers and bank managers at the plenary sessions, only when the media can criticize the corporations, the banks, and their bosses, and only when they reveal the true conditions in the Western world, that we can trust the Western society's democracy, not when we argue incessantly and fruitlessly with the political activists." (Author's remark: perhaps Gorbachev is advocating "socialization" in the U.S., because only enterprises in the socialist public ownership system hold so-called "elections of plant managers." If Gorbachev believes that only if the American workers and employees can "freely elect their plant managers and bankers" can there be true democracy, otherwise there is only pseudo-democracy, then I would like to know, do the Soviet citizens have the right to "freely elect" the chairman of the USSR Supreme Soviet Presidium? Can the Soviet citizens freely elect their mayors? Are the Soviet citizens free to print their own newspaper?)

### Gorbachev's "New Thinking"

Gorbachev's "new thinking" basically is an extension and the development of Khrushchev's ideas. Khrushchev had a famous saying: in a thermoneuclear war, "there can be no winners and no losers." In his "new thinking," Gorbachev repeatedly used this phrase and with added meaning, and from here the relationship between war and politics was inferred.

Ever since the 19th century Prussian general and military theoretician Von Clausewitz submitted that "war is the continuation of politics by other means," politicians have looked upon that as classic. Lenin expounded on the theory of war based on those words and called Clausewitz "one of the greatest military historians." Mao Zedong also quoted this saying in his exposition on the theory of war. Today, Gorbachev refuted this famous saying. He said,

"The fundamental principle of the new political thinking is very simple: nuclear war cannot be the means to achieve political, economic, ideological, or any other goals. This conclusion is truly revolutionary in nature, because it is a radical departure from the traditional concepts of war and peace. We should know that the political function of war has always been its own defense, the excuse which gives war 'reasonable' meaning. Nuclear war is meaningless; it is irrational. In a global nuclear confrontation, there will be no winner nor loser, but world civilization will inevitably be destroyed. It is not the ordinary kind of war we understood. It is suicide....As a result, a new situation has emerged. The kind of thinking and behavior which deems the use of military force the foundation of world politics has taken hundreds, even thousands, of years to solidify. It practically has become an irrefutable law. Now it has lost its rational basis. Clausewitz's classic formula—war is the continuation of politics by other means, is obsolete."

#### **Blaming the U.S. for the Tense International Situation**

The entire second half of the chapter "New Thinking and International Relations" is an attempt to explain that the Soviet Union is not a bully; rather, the Soviet Union is a victim. It blames the tense international situation and all the sins in the world on the United States government and the U.S. "military-industrial complex."

Gorbachev boasted of "the recognition of the privileges of all people and all nations, and the recognition of their equality in international life," but he never mentioned the Soviet Union's unequal role as "big brother" to the eastern European countries. He boasted of "recognizing the people of all nations' right to choose their path of social development, of not interfering with other country's domestic policies, of respect for other countries, and of having an objective self-criticizing attitude toward his own society, and of the people having a choice between capitalism and socialism." But Gorbachev never considered giving up "proletariat internationalism" or Soviet hegemony. He still lauds Marxist "internationalism" and denounces the United States' "pursuit of an expansionist foreign policy" and their "war machine."

#### **The Soviet Union's Suppression of Hungary, Czechoslovakia, and Poland Was Due to Disruptions by the West**

Gorbachev said, "for example, it was the same in Hungary in 1956, Czechoslovakia in 1968, and Poland in 1956 and again in the early 1980's. Although each crisis was different, and each crisis was weathered in a different way, the objective fact is, not a single country has restored the old system. I have discovered that despite all the problems and complications in the development of socialist countries, socialism itself is not at fault; the fault lies with the ruling party. Of course, the West must share the 'credit': they should be 'credited' for their constant and stubborn attempts to sabotage the development of socialist countries and for their covert disruptions."

First, the Soviet Union's military suppression of Hungary, Czechoslovakia, and Poland is blamed on the three country's "ruling party" and the West's "covert disruption."

Second, Nagy, the Hungarian premier at that time, wrote the United Nations seeking to leave the Socialist camp. This is a fact well known to the world. Were it not for the Soviet military suppression, Hungary would long since have "restored their old system." Nagy was abducted and executed by the Soviets. There can be no better evidence of interference in other country's domestic policy than this. Today, Gorbachev tries to deny it altogether. His grandiose talk of "not interfering in other country's domestic policy" and "recognition of the people of all nations' right to choose their path of social development" is pure nonsense.

#### **Gorbachev Also Defends the Invasion of Afghanistan**

The decision by Brezhnev, then CPSU Central Committee general secretary, to send troops into Afghanistan made the Soviet Union even more infamous. What is amazing, however, is that Gorbachev not only failed to criticize his predecessor's expansionist policy, he even tried to defend expansionism.

Gorbachev's explanation for the Afghan invasion is, "Afghanistan has many problems stemming from its being an extremely backward country. These problems had originated under the British rule. When Afghanistan began to show some progress, the country was under pressure from the outside. The imperialist bloc began to interfere. As a result, the Afghan leader sought help from the Soviet Union under the treaty between the two countries—before we agreed to send limited Soviet troops, the Afghan leader had sent 11 requests for help."

Gorbachev thinks that the people in the world are fools, and that is how he can utter such blatant lies. First, we must point out that the so-called "treaty between our two countries" refers to the Afghan-Soviet "Treaty of Friendship, Good-Neighborliness, and Cooperation" signed on behalf of Afghanistan by pro-Soviet Taraki in December 1978, after he had ousted President Daoud in April and made himself prime minister and minister of defense. Second, Taraki might have been pro-Soviet, but he had not always yielded to the Soviets, and the Soviets had to replace him. Taraki was killed in March 1979. Deputy Minister Hafizullah Amin succeeded Taraki (both Taraki and Amin had served as general secretary of the People's Democratic Party of Afghanistan (PDPA) Central Committee.) Amin was fiercely nationalistic, and Karmal, an expatriate expelled from the PDPA and living in the Soviet Union at the time, became the Soviet Union's chosen man. On 27 December 1979, the Soviet army invaded Afghanistan. Amin was shot to death by Soviet soldiers, and Karmal set up his puppet government and became general secretary of the PDPA Central Committee, the president of the Afghan Revolution Committee, and the prime minister. When Gorbachev

said "the Afghan leader had sent 11 requests for help" before the Soviet army invaded Afghanistan, he was referring to then-exiled in the Soviet Union's Karmal's "requests."

#### **Bragging About the "Non-Ideological" National Relations**

Gorbachev always puts on an "enlightened" appearance, but he has no substance. He advocates "striving for non-ideological national relations," saying "we suggest that we should rise above ideological differences to let each person make his own choice, and his choice should be respected." How nice!

But it is not necessary to denounce the United State's "anti-communist rhetorics." If Gorbachev really wants to forge "non-ideological national relations," it is very simple, but he must be sincere, and all he has to do to reach his goal is to lift the censorship on the media.

If there is freedom of the press and the media, non-ideological national relations can be forged. The problem is, it is the communists who are blocking the non-ideological relations between nations. The United States allowed a private publishing company to publish a Gorbachev book denouncing America. Can an American book which denounces the Soviet Union ever be published in the Soviet Union? Of course, these books of denunciation are a minor issue, but can the many American political books and articles be published in the Soviet Union? "Let each person make his own choice"—sounds good, but are Soviet citizens and Soviet intellectuals free to each "make his own choice"?

#### **Conclusion**

After reading *Reform and New Thinking*, my conclusion is: we must not expect too much of Gorbachev's "reform," and we must not pin our hopes on Gorbachev's high-toned "peace." On 24 May, Kissinger, who knows the Soviet Union well and who has met with Gorbachev many times, arrived at the conclusion that "China's reform is more thorough, in theory and in practice, than the Soviet Union's." (see CANKAO XIAOXI [REFERENCE INFORMATION] 25 May.)

**Soviet Reform as Seen by PRC, West**  
40060026 Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 224, Sep 88 p 28

[Article in "International Field of Vision" column by Yu He 7411 4421: "Looking at the Soviet Reform From Two Different Viewpoints: From the PRC's Viewpoint, the Focus Is On Comparing the Chinese and Soviet Reforms. From the Viewpoint of the West, the Confrontational Relations Requires One to 'Know Thy Enemy.'"]

[Text] Since Gorbachev's ascent to power, his proposal of reform has caught the attention of the world. The

Soviet reform from the point of view of the Chinese differs significantly from the observations of the West.

From the Chinese angle, the most important issue, naturally, is the comparison between the Chinese and the Soviet reforms. The comparison reveals two conspicuous elements:

First, the Chinese reform had started several years ahead of the Soviet reform, and there are significant differences in strategy. The Chinese started off with economic reform, that is, "open up to the outside world, and revitalize the domestic economy." Political reform has been very slow and passive. As for progress, the Chinese reform first saw success in the rural areas, but urban reform has run into problems and dangerous obstacles. Recently, prices have surged and the people are losing confidence. Society is facing a crisis. Gorbachev's reform, on the other hand, is based on a strategy which makes the breakthrough in ideology and political system the foundation of economic reform. He had a later start, but the momentum is very strong. Politically, he advocates "glasnost," and recently, the party has ratified the process of election by multiple nomination and secret ballot. The next step will be devolution of economic management power and price reform. In comparison, the Soviet reform seems to be catching up. Especially in the area of political reform, one gets the feeling that Deng Xiaoping cannot measure up to Gorbachev. The difference in strategy coupled with China's apparent reform crisis have led many to think that perhaps the PRC has taken the wrong approach, and perhaps Gorbachev is right.

Second, China and the Soviet Union have become very interested in each other. In mainland China, an interesting phenomenon is the significant increase in newspaper reporting on the Soviet Union, including the Soviet reform, the political rehabilitations (such as the Buharin case of the 1930's,) and Soviet anti-Stalinism (in May of this year, Shanghai's SHULIN [BOOKS] published a "Secret Report" on Khrushchev's posthumous denunciation of Stalin at the CPSU 20th Party Congress in 1956.) Mainland China's CANKAO XIAOXI [REFERENCE INFORMATION] often publishes reports on the Soviet reform and has lost no time in translating and publishing Gorbachev's book, "Reform and New Thinking." In January of this year, Beijing's BAOGAO WENXUE [REPORTAGE] No 1, 1988, published a report by Qian Gang [6929 6921] (the young reporter who wrote "Tangshan Da Dizhen" ["Earthquake in China"], about his visit to the Soviet Union last year), entitled "Reform: Soviet Union in the Fall of 1987." The article mentioned the Soviet's "glasnost"—"You are free to look everywhere...Want to discuss juvenile delinquency? Want to discuss drugs? Want to talk about homosexuals? Want to talk about bureaucracy? Possible. Everything is possible." The article also mentioned wages and prices in the Soviet Union, and it also said, "a car-load of vacationers, or a vacation home"—"to many Soviet people, this is reality," but "to many Chinese, it is still something too remote."

Because of the confrontation with the communist camp led by the Soviet Union, the Western world's interest in the Soviet reform is a matter of "knowing thy enemy." The focus is on the nature and the opportunity of this Gorbachev-initiated reform.

Western observers are inclined to think that Gorbachev's "glasnost" and "democratization" are measures aimed at the conservative faction in the party. It is "democracy" under a one party dictatorship and is not a democratic reform in the Western sense. Many observers believe that Gorbachev is and always will be a communist and an orthodox Leninist. Some even feel that Gorbachev's reform, his so-called foreign policy of reconciliation and cooperation has not gone beyond Khrushchev's peace and coexistence or Brezhnev's moderation strategy. Thus, Gorbachevism is only an extension of Khrushchevism; it is only a newer and more complicated version than Khrushchevism. On domestic matters, Gorbachev's reform has shown no sign of giving up party privileges. It has only rectified some of the relationships between the ruler and the ruled as a means to augment the party's control in society.

As for reform opportunity, the difficulties come from two sources: first is the economic aspect. Because of the entrenched central planning system, economic reform inevitably will bring turmoil. The obvious problem is prices. In the past, price stability depended on government subsidies. If reform is implemented, prices will surge. At the same time, because of old habits and ideologies and other factors, even though economic power can be devolved and a contract responsibility system can be initiated, individual economy and privatization will still be constrained. For example, agricultural production will remain under the collective farm system, and private enterprises still will not be allowed to hire their own workers. Second, politically, there is resistance from the central to the local levels. Party and political bureaucrats at every level have long established special interest cliques, and reform will threaten their status and power, and will be resisted. High level party members also have a different view of the reform. A clear "conservative" is the party's number two man, Ligachev. He has said that he would only support "constructive openness" and warned against "anarchism" and "petty bourgeois liberalism." Observers believe that last year's dismissal of Yeltsin, first secretary of the Moscow city party committee, marked Gorbachev's first setback. Recently, when Soviet Foreign Minister Shevardnadze commented on international cooperation and denied that peace and coexistence was only "a peculiar form of class struggle," he too was criticized by Ligachev, a staunch believer in class struggle, for creating ideological confusion.

Obviously, we must combine the many different viewpoints before we can really understand the complication and the effects of the Soviet reform.

## NEAR EAST/SOUTH ASIA

### Israeli Missile Capability Seen Menace to Middle East

40050039 Beijing JIEFANGJUN BAO in Chinese  
10 Sep 88 p 4

[Text] A Jordanian newspaper recently reported that Israel had prepared and readied for launch a military spy satellite, and was only waiting for the Israeli cabinet to select an appropriate time. This satellite would then be sent into space, to carry out the specific mission of surveying military movements in the Mideast nations. This event caused the other nations of the Mideast great concern. Aside from the intrinsic military function of the satellite, the affair served to underline Israel's guided missile capabilities, and ultimately to reemphasize the old question: Who is responsible for the missile threat in the Mideast? This question was answered long ago, and all fingers pointed to Israel. Is there any basis for this assertion? There is. In deciding whether Israel is or is not the locus of the missile threat, one must consider first whether it harbors aggressive, expansionist ambitions, and second whether it has the capability of attacking its neighbors with guided missiles. Israel clearly fits these two criteria.

First, look at Israel's guided missile strength. Everyone knows that to put a satellite into orbit requires at least the same launch capability as an intercontinental ballistic missile. Israel's ability to launch a satellite proves its missile technology has already attained that level. In fact, Israel began producing medium-range missiles as early as 1983. In March 1987, Israel successfully completed a secret test launch of its "Jericho" missile in the Mediterranean Sea, a missile with a range of 1500 kilometers and capable of carrying a nuclear warhead. As several nations pointed out, this class of missile is the equal of the middle range missiles of the United States. Everyone can also recall the article in the British *SUNDAY TIMES* of October 1986, which presented irrefutable proof that Israel had begun secretly manufacturing nuclear warheads in the 1960's, and was presently capable of large scale production of atomic and hydrogen bombs. Moreover, Israel was capable of mounting these warheads on guided missiles. We can conclude that Israel already has the capability of carrying out attacks on other countries using missiles of various ranges.

As for Israeli military expansion, the whole world is familiar with its heinous record. It is needless to say more. In order to use its missiles as a trump card in blackmailing the other nations of the Mideast, Israel has on the one hand spared no efforts to develop its own nuclear and conventional missiles, and on the other has repeatedly acted to preserve its regional monopoly on such weapons. In 1981 Israel launched a sudden sneak attack on a nuclear reactor under construction in Iraq. Recently, an Israeli high official discussing the missile question cited this event and said, "Israel has the reputation of not waiting until a potential threat becomes



reality before taking action." Is this reputation he boasted of not in fact a reputation for using a monopoly on missiles to threaten the security of the Mideast nations?

The present instance of Israel launching a military satellite is another step in intensifying this threat; since the satellite can survey the Arab countries night and day and provide Israel with targets for guided missile attacks on other nations. In the words of some Western observers, the satellite launch "gives Israel an obviously superior position in the balance of power with the Arab nations."

Nevertheless, the United States pretends it cannot see that Israel is the origin of the missile threat, and shields Israel in every possible way. On the contrary, the United States finds great significance in Saudi Arabia's purchase of missiles for self-defense and trumpets the fact incessantly. Some people still adopt a pose of bemoaning the sad state of the world and seem concerned only for peace in the Mideast. In reality, once the Western spectacles are removed the United States is seen to be the right-hand man in Israel's missile strategy.

For the past 40 years America has served as the largest contributor to Israel's armament and munitions production technology. The United States provided Israel with

the most advanced fighter planes, missiles, radar, tanks, and heavy artillery. Everyone recalls that since 1970 when the United States and Israel signed a "General Compact for the Exchange of Defense Development Information" as well as numerous specific agreements. The United States has furnished Israel free of charge or at low cost with all manner of technical data on producing a complete arsenal of missiles. People have also not forgotten that the United States allowed Israel equal privilege with the member nations of NATO, permitting it to purchase the right to manufacture and export American-designed military hardware. People likewise remember that the United States formally invited Israel to participate in the "Star Wars" research program. In 1987 the United States-Israel 100 million dollar defense pact included the very latest ballistic missile technology. Since America has made this great "contribution" to Israel's missile program, what right does the United States have to make indiscreet criticisms of other nations?

The facts make clear that the missile threat in the Mideast originates in Israel; if the United States truly desires to bring about peace and stability in the region, it should cut off military support to Israel.

**'Society of Masses' Mentality Slows Move  
Toward 'Society of Citizens'**

40050079p Beijing ZHENGZHI XUE YANJIU  
[STUDIES IN POLITICAL SCIENCE] in Chinese  
No 5, 10 Sep 88 pp 1-5

[By Liu Zhiguang 0491 1807 0342 and Wang Suli 3769 4790 5461, both of the Marxism-Leninism Teaching and Research Section of the Petroleum and Geophysical Exploration College, Zhuozhou City, Hebei Province: "Moving from a 'Society of the Masses' to a 'Society of Citizens'"]

[Abstract] This article compares the meaning and historical development of the concepts of "a society of the masses" and "a society of citizens" in China and the West and argues that as China becomes more advanced economically, its body politic needs to change the way it looks at itself, from being a "society of the masses" to a "society of citizens," if it is to protect and develop its political power.

The concepts of the "citizen" and a "society of citizens" are very weak in China. The authors point out several reasons for this. One reason lies in language. In Chinese, the idea of "the individual" is covered by the term "the masses." A look at the etymology of the "the masses" also reveals that the concept of "free people" is no part of the meaning. Another reason is that traditionally the smallest unit of Chinese society and government was the household. Thus the concepts of "citizen" and "citizenry" did not develop in China and in fact are very new concepts, only a few decades old. A third reason is that the Chinese revolution was a revolution to further the rights of the masses and not the rights of the individual.

The authors contend that the failure of China's body politic to think of itself as a society of citizens results in a loss of political power. They point to bureaucracy and all the attendant ills of corruption as an example.

Today people in China are starting to pay more attention to the rights of citizenship. Citizenship rights imply two things. One is legally sanctioned and protected behavior. A second is active behavior on the part of the citizens to make what is legally sanctioned and protected a reality. The authors point out that while legal sanctions are fairly well in place in China, the passive attitude of China's citizens toward their own rights is a result of their failure to think of themselves as "the masses" rather than as citizens.

**Article Suggests Social, Psychological Obstacles  
Impede Reform**

**Social Attitudes**

40050053p Beijing BAN YUE TAN [SEMI-MONTHLY  
TALKS] in Chinese No 17, 10 Sep 88 p 14

[By Yu Changhong 0060 7022 3163 and Ma Tianze 7456 1131 3419]

[Summary] The Chinese public is psychologically not ready for market mechanisms in the nation's health care

system. Hence reforms to bring the law of value to bear on medical care have run into public resistance.

Since 1986, Beijing, Shenyang, Kunming, and other cities have injected market mechanisms into the health care system by allowing doctors to open private offices. Numerous provinces, cities, and autonomous regions have raised fees charged for services in hospitals that have brought in newer and more sophisticated equipment and technology. These reforms have served to make hospitals more independent fiscally, increased the quality of health care, and increased the numbers of doctors available at any given time. Many among the public, however, view these reform measures as a scheme to make money. They see the creation of private offices as a disguise for fee increases and object to the deviation from the socialist nature of medicine in China.

**Two Types of Social Psychologies**

40050053p Beijing BAN YUE TAN [SEMI-MONTHLY  
TALKS] in Chinese No 17, 10 Sep 88 p 6

[By Xin Ji 6580 2817]

[Summary] Psychologists have identified two types of psychologies that are hindering political and economic reform.

The first psychology is one of unrealistically high expectations of reform. People who hold this view do not understand the complexities of reform and believe that reforms should instantly bring about material benefits to everyone, "instant wage increases," and satisfy the ever-rising expectations of consumers. Because their rising expectations are not fulfilled, they succumb to a strange malady characterized by "eating from a rice bowl full of meat while cursing" at the slow pace of reform.

A second psychology that is hindering reform is one that consciously embraces reform but subconsciously longs for the old order. For example, some are unhappy with the "iron rice bowl." Yet when it comes to improving the quality of labor, they find they are unable to part with the old "fixed work" concept. For another example, those who oppose distribution on the basis of "equalitarianism" end up distributing bonuses on just such a basis.

**Factory Manager's Role as Political-Ideological  
Worker Challenged**

40050024a Beijing SIXIANG ZHENGZHI GONGZUO  
YANJIU [RESEARCH ON  
POLITICAL-IDEOLOGICAL WORK] in Chinese  
8 Aug 88 pp 22, 24

[Article by Wang Jianying 3769 0494 4481: "Two Questions Should be Clarified in the Study of A New Layout"]

[Text] Many articles studying the new layout of enterprise's ideological and political work have been published recently. I have read some of them and gained a

good deal of enlightenment from them. However, I have also found some deficiencies. First, some issues have not been mentioned. Second, some questions have not been clarified ideologically. Third, some arguments are open to discussion. I'd like to discuss two issues with you.

### **The Study of Layout Should Be Comprehensive**

The definition of layout, according to the dictionary, is structure, form, and style. It refers to the way in which different parts of an article or thing are put together. It should include the position of each part as opposed to others and their interrelations. So when we study the new layout of enterprise' ideological and political work, we should conduct a comprehensive study of the respective task, responsibility, and position, as well as the interrelation of factory manager, party committee, and trade union in the layout.

A comprehensive survey of recently published articles shows that these articles all emphasize the need and advantage for factory managers to take overall responsibility in ideological and political work and give fairly detailed explanation on the task, responsibility, and leading position of factory managers in ideological and political work. But they do not talk very much about the task, responsibility, and job description of enterprise' party organizations in ideological and political work. Some even do away with or avoid talking about the task and responsibility of party organizations in carrying out ideological and political work among staff members and workers. As for the issue of what trade unions should do in ideological and political work, almost nobody mentioned it. According to Lenin's argument, trade unions "are an educational organization which attracts and trains people, a school where people can study management and economic administration, and a school of communism." ("On Trade Unions, Current Situation, and Trotsky's Mistakes") Ignoring trade union's functions in regard to the ideological and political work of staff members and workers is obviously improper. The functions of factory managers alone, without other factors, cannot form a layout; they can, at most, form a part or a profile of the layout. Therefore, when we study the new layout, we should thoroughly analyze the task and responsibility of each part and their interrelations.

### **The Interrelations of Each and Every Part Must Be Clarified Ideologically**

In the articles about the new layout, a factory managers' position is quite clear; that is unified leadership and overall responsibility. When it comes to the position and task of party committees in the ideological and political work of staff members and workers, these articles become ambiguous. Some think that it is wrong for "the party to take care of itself only," but they do not say what else should be taken care of by the party and how it should be done. Trade unions, like I said before, are seldom mentioned. There are different views on the issue of interrelations. One says that the party, government,

and trade union should divide up the work and share the responsibility under the leadership of factory manager. Another one says that the party, government, and trade union should closely coordinate with each other under the unified leadership of factory manager. The third one says that the factory manager should take full responsibility with the assistance and cooperation of the party committee. Does this mean that in ideological and political work, party committees and trade unions are under the leadership of factory managers and their relation is one between the leader and the subordinate? The above views seem to suggest such an interpretation though no one has specifically said so. I think we should clarify this question; otherwise, it is likely to cause confusion in theory and practice.

Given that the factory manager responsibility system is implemented, the factory manager, as a corporate representative of the enterprise, should assume unified leadership over the enterprise and overall responsibility; whereas as a manager of socialist enterprise, he should be fully accountable for the material and ideological progress of the enterprise. There is no doubt about this. However, the question is: when we confirm the factory manager's position of unified leadership and overall responsibility, do we automatically confirm his leading position in party organizations and trade unions (even if it only applies to ideological and political work)? I think the answer is negative. When we explain why an enterprise party committee should not exercise "unified leadership" over the work of its unit, an important argument is that the party and the enterprise are different in nature because the former is a political organization and the latter, an economic organization. A party organization cannot exercise direct leadership over the production and management of an enterprise. Now if we turn it around and say that the factory manager, who is the plenipotentiary of an economic organization, can lead the party organization and trade union, won't we be contradicting ourselves?

In a socialist enterprise, doing a good job in production and management and trying to achieve best economic and social returns are not only goals to be attained by the factory managers but also tasks of the party organization and interests of the working class. Therefore, they should be the common central tasks of the factory manager, enterprise party organization, and trade union, and all work should be carried out around these central tasks. The party organization and trade union of an enterprise should defend the overall leading position of the factory manager in the enterprise and support him in doing a good job in production and management. But this does not mean that they have the relation between a leader and a subordinate. I think that the relation between the party committee and trade union of an enterprise and the factory manager is an equal and cooperative relation between the political party and organization of the working class and the administrative leader of the enterprise. As for their positions, tasks, and responsibilities in the new layout of enterprise's ideological and political

work, we should study and explain them in accordance with the nature and mission of each organization. Replacing the respective responsibilities of party organization and trade union with the overall responsibility of the factory manager is, I am afraid, not proper.

Our task in the study of ideological and political work is to not only sum up the experiences of practical work but also to analyze and prove such experiences in theory. We should apply Marxist theory of political parties and trade unions to our studies and use theories to guide our practice. If we stop at describing the phenomena of practical experiences, theoretical studies will become meaningless and ideological and political work will not become a real science.

### **Public Discussion on Idea That 'Party Should Mind Its Own Business'**

40050024b Beijing SIXIANG ZHENGZHI GONGZUO  
YANJIU [RESEARCH ON  
POLITICAL-IDEOLOGICAL WORK] in Chinese  
8 Aug 88 pp 24, 26, 14

[Article: "Does 'The Party Should Attend to Its Work' Mean 'the Party Should Mind Its Own Business?'—A Collection of Letters to the Editor"]

[Text] After our magazine published Comrade Li Jian's [2621 2914] and Comrade Guang Sheng's [0342 3932] articles respectively in the third and fifth issues of this year, we stirred up great repercussions, and many comrades wrote to our editorial department to express their views. Here we have published some of their views and hoped that they will help you better understand and study this issue.

### **"The Party Should Mind Its Own Business" Contradicts the Party Constitution and the Demand of the CPC Central Committee**

Hou Xu [0230 2485] of No. 631 Institute of the Ministry of Aeronautics and astronautics: The 33rd provision of "the Constitution of the Communist Party of China" states: "Grassroots party organizations of enterprises and establishments, which implement the administrative leader's responsibility system, should ensure and supervise the implementation of state and party principles and policies in their own units. These grassroots party organizations should focus energy on strengthening party building, make a success of ideological, political, and mass work, support administrative leaders in exercising their power according to rules, and make suggestions and proposals on major issues." "The Circular of the CPC Central Committee on the Implementation of the 'Enterprise Law'" clearly points out: "Enterprises' party organizations should focus energy on strengthening party building, bringing into play party branches' role as a fighting force and party members' role as a vanguard, make a success of ideological, political, and mass work; support factory managers in fully exercising power according to the 'enterprise law,' and make suggestions

and proposals on major issues." It is thus clear that the argument that "the party should mind its own business" obviously contradicts the Party Constitution and the demand of the CPC Central Committee. How can an enterprise' party organization play its role as a guarantor and supervisor if it does not carry out mass work, support factory managers in exercising power, or make suggestions and proposals on major issues of the enterprise? If it does, how can we say that "the party minds only its own business?"

Wang Aimin [3076 1947 3046] of the Gunzhou Mining Administration: The report of the 13th Party Congress states: "Only when party and administrative organs are separated can the party control contradictions, get hold of the situation as a whole, and become a real coordinator of all fields." If we emphasize that "the party should mind its own business," do party organizations still need to eliminate contradictions and get hold of the situation as a whole? Do they still need to act as a coordinator of all fields? The report of the 13th Party Congress also states: "Only when the party is separated from the administrative organ can party organizations function better as a supervisor and effectively prevent and overcome bureaucracy." If we emphasize that "the party should mind its own business," do enterprises' party organizations still have the power and duty to help non-party member cadres overcome bureaucracy?

### **A One-Sided Interpretation of the Scope of Insurance and Supervision**

Wei Shiqin [7614 1102 0530] of the No 523 State Plant of Dalian: Comrade Guang Sheng held that "enterprises' party organizations can only ensure and supervise the behaviors of individual party members." It is unscientific to limit the scope of insurance and supervision like this. First, it is hard to understand how to ensure and supervise "the behaviors of individuals." Second, if the factory manager is not a party member, does the party organization of this enterprise still have the right to ensure and supervise him? Based on Comrade Guang Sheng's view, the answer seems to be no. But as a matter of fact, whether or not the factory manager is a party member, the enterprise's party organization must vigorously support him in assuming overall responsibility for the enterprise and exercising his power according to law and ensure that his administrative orders are carried out smoothly and that policies are implemented. Should it discover that the factory manager violates policies in regard to major issues such as policy decisions, the democratic rights of staff and workers, and management directions, it must act as a guarantor and supervisor.

Zhou Bilu [0719 1801 4294] of Bishanyang Road of Chongqing City: I do not agree with Comrade Guang Sheng's view that "the insurance and supervision of party organizations should be limited to the behaviors of individual party members." First, the party and administrative organizations of an enterprise no longer have the kind of relation that is between a leader and a

subordinate, but this does not mean that the former no longer has the power to ensure and supervise the latter. The eighth provision of the "enterprise law" stipulates: "Grassroots CPC organizations of enterprises should ensure and supervise the implementation of party and state principles and policies in enterprises." Here "implementation" obviously means implementation in administrative organizations. Therefore, the target of insurance and supervision should be administrative organizations. Second, party members are the cells of party organizations and party organizations are leaders of party members. Therefore, when party members violate disciplines, party organizations will punish them directly and there is no need to put special emphasis on "insurance and supervision." Third, administrative, auditing, and judicial departments should, of course, supervise enterprises' production and management, but they cannot replace the supervisory function of party organizations. As a matter of fact, administrative, auditing, and judicial departments supervise enterprises mainly to see if they violate laws and economic and financial disciplines. As for enterprises' major policy decisions, production and management directions, the master status of enterprise staff and workers, and the role of enterprise leaders, party organizations should conduct routine, effective supervision which will not be confused with the supervision of administrative, auditing, and judicial departments.

#### **"Party Should Mind Its Own Business" Is Not a Logical Inference**

Wang Qunsheng [3769 5028 3932] and Ji Fengling [0679 1496 1545] of the Yancheng Municipal Industrial and Commercial Bank of Jiangsu Province: "The party should attend to its work" and "the party should mind its own business" are two different concepts. Judged from the point of extension, "the party should attend to its work" covers a greater area than "the party should mind its own business." (The former does not exclude the possibility that the party will also attend to other work whereas the latter limits the party to its own work and prevents it from attending to the work of other units.) The only logical inference that can be drawn from "the party should attend to its work" is "the party should not ignore its work." There is no way we can reach the conclusion of "the party should mind its own business."

Liu Wangdao [0491 2598 6670] of the Party School of the Wuhan Iron and Steel Company: Li Wen's [2621 2429] theory and arguments are logical. The conclusion that "the party should mind its own business" cannot be logically deduced from "the party should not ignore its work" and "the party should attend to its work"; nor can it be deduced directly from "the party should not ignore its work." Comrade Guang Sheng's arguments are open to discussion. First, he interpreted the phrase "each assuming its own responsibility" used in the work report of the 13th Party Congress as "party organizations should only attend to their own work" and then stated that there is nothing wrong for "the party to mind its

own business." In my opinion, the view that "the party should mind its own business" is one-sided even "in this sense." None of the functions of central, local, and grassroots party organizations can be tolerated by those who think that "the party should mind its own business." Second, he said that "we should not interpret 'the party should mind its own business' simply as 'enterprises' party organizations should adopt the attitude of 'sweeping the snow from their own doorstep' and not bothering about the frost on their neighbor's roof toward enterprises' production and management." This view is, of course, correct. However, it also explains that the conclusion that "the party should mind its own business" is one-sided. If "the party should attend to its work" means "the party should mind its own business," it will mean precisely "sweeping the snow from their own doorstep and not bothering about the frost on their neighbor's roof."

#### **More on How To Interpret the Phrase "Attending To"**

Que Banghuo [7067 6721 3499] of the Party Committee of the Renmin Ribao Office: Comrade Guang Sheng is afraid that advertising the idea that "the party does not mind only its own business" might cause ideological confusion and thus adversely affects the all-round implementation of plant director or factory manager's responsibility system. I think this worry is unnecessary. We do not have to take the phrase "attending to" so seriously. It is a concept of extremely rich intension and very broad extension. It can refer to policy decision, leadership, organization, management, involvement, taking interest in, education, insurance, supervision, assistance, coordination, support, and concern. "The party should not only mind its own business" does not necessarily mean that party organizations must interfere with administrative affairs and hamper the initiative of plant directors and factory managers. It is harmful to attend to things that should not be attended to; it is also harmful to ignore things that should be attended to. Party organizations and plant directors and factory managers should support and closely coordinate with each other. Party organizations should not do anything that will interfere with administration and prevent plant directors and factory managers from exercising leadership, but they should be bold and responsible in coordinating with and supporting the work of plant directors and factory managers. Strictly speaking, if enterprises' party organizations do not bother about other things and mind only their own business, it is not a positive attitude toward supporting plant directors and factory managers.

Feng Shouqin [7458 1343 2953] of the Party School of the Zhengzhou Aluminum Plant: Comrade Guang Sheng thinks that since the party and administrative organizations of an enterprise do not have the relation that is between a leader and a subordinate, there is no such question as who controls who and enterprises' party organizations should only mind their own business. It looks like that Comrade Guang Sheng equates the concept of "attending to" with that of "leading." Can't one

attend to others if he is not their leader? The extensive meaning of the word "leading" is much narrower than that of "attending to." The phrase "attending to" has a much broader meaning. For instance, ensuring and supervising are also a kind of "attending." The leader-subordinate relation usually refers to the relation between upper and lower levels; whereas ensuring and supervising can refer to relations between departments at the same level, between upper and lower levels, and between the masses and organizations. If there is no such question as "who controls whom" between the party and administrative organizations of enterprises, party organizations' ensuring and supervisory functions will become invalid. Administrative organizations (or cadres) will use this as an excuse to refuse the supervision of party organizations.

#### **"Either-Or" Interpretation Is Improper**

Liu Xinghan [0491 5281 3352] of the Shenyang Liming Motor Manufacturing Company: I have read both Comrade Li Jian's and Guang Sheng's articles and think they are both right in their own way like two persons looking at both sides of an apple—one said it is green and the other said it is red. I think the key is to understand the meaning of "the party should attend to its work." First of all, "the party should attend to its work" is directed against mixing party and administrative functions. Second, it is aimed at the overcentralization of power. Third, it is aimed at the form of exercising the party's political leadership. Fourth, it is directed against the party's self construction. Therefore, we should interpret it from the angle of the whole party in light of the guiding principle of political structural reform. We should not interpret it from the angle of enterprise and concrete division of work; still less should we resort to the "either-or" interpretation. Interpreting "the party should attend to its work" simply as "the party should not only attend to its own work" or as "the party should mind its own business" or each side claiming he is right can easily cause ideological confusion, prevent people from correctly understanding and mastering the spirit of the 13th Party Congress, and adversely affect the practice of the reform of political structure.

#### **Too Early To Draw a Conclusion**

Wan Xiaohong [8001 4562 5725] of the Yantai Municipal Construction Company: Comrade Li Jian thinks that "ensuring and supervising is not only an important responsibility but also a power of party committees. They should rely on this power to get a firm control of major issues on enterprise's development orientation and political principles." In this way, party committees have the power to control major issues on enterprise's development orientation and political principles while plant directors (factory managers) have the power to assume overall responsibility over enterprises. This has created the situation of the co-existence of two sets of power organs. Under this situation, whenever there is friction at work, party and administrative organs will each exercise their own power. The incident of Xuchang City's No 2 Internal-combustion Engine Accessory Plant in which the party secretary terminated the plant director's credential as a probationary party member while the plant director fired the party secretary is a typical example. In some good enterprises, "party secretaries are involved but do not interfere, let go but do not ignore, give advice but does not have the final say, and make suggestions but not decisions." As a matter of fact, "no final say and not making decision" also means that they do not have the power to control major issues on enterprise's development orientation and political principles. Party committees are merely performing their duty of "getting the message through." According to Comrade Guang Sheng's view, party committees cannot ensure and supervise the work of administrative organizations, party and administrative organizations cannot control each other, and they should mind their own business. This will reduce the frictions between party and administrative organs, but the following problems will occur simultaneously: 1) If the party only minds its own business and does not take part in production and management, carrying out the party's ideological and political work in light of production and management will become an empty talk. 2) If the party can only attend to its self construction and has no right to interfere with others, the party's function will be less powerful than that of a mass organization (such as the trade union.) 3) If administrative leaders are non-party members and party organizations have no right to interfere even when they are incompetent, how can party organizations ensure and supervise anybody or anything? So we must do away with old concepts when we try to understand "the party should attend to its work," but it takes time.

## NATIONAL AFFAIRS, POLICY

### Labor Minister on Enterprise Reform

OW0811012588 Beijing DAN JIAN in Chinese  
No 9, 5 Sep 88 p 5

[Article by Luo Gan, minister of labor: "Actively Promote the Reform of Three Systems and Vigorously Improve Enterprises' Economic Returns"]

[Excerpts] China has entered a crucial stage in restructuring its economic system. The reform of commodity prices and wages will be carried out in the next few years to meet the needs arising from establishment of an order of socialist commodity economy. Fundamentally, whether the reform of commodity prices and wages can be smoothly carried out depends on whether enterprises can increase their economic returns to a comparatively large extent. The increase of enterprises' economic returns can be achieved only through deepening reform of enterprises and transforming enterprises' managerial mechanisms. It may be said that deepening the reform of enterprises is our basic measure to ensure the smooth progress of the reform of commodity prices and wages. The reform of the three systems of labor, wages, and insurance and welfare is an integral part of transforming the managerial mechanisms of enterprises and is a major component of deepening reform of enterprises. Faced with such a new situation, the newly organized Ministry of Labor must let reform assume a dominant role in all its work, focus on the central link of transforming the managerial mechanism of enterprises, actively and steadily promote reform of the three systems of labor, wages, and insurance and welfare, and make efforts for further increasing enterprises' economic returns.

#### 1. Further Reforming Enterprises' Wages System To Bring Into Full Play the Initiatives of the Broad Masses of Staff Members and Workers

Enterprise wage reform has been conducted in a number of beneficial ways in recent years. The basic concept is to link enterprise wages and bonuses with economic returns, and wages for staff members and workers with their individual labor contributions. The practice of reform has proven that it plays an active role in bringing into full play the initiatives of enterprises and the broad masses of staff members and workers and increasing enterprises' economic returns. The long-term objective of enterprise wage reform is for the state to levy taxes and have the decision-making power for distribution of tax revenues on the premise that enterprises are granted decision-making powers in their operations and assume full responsibility for their own profits and losses. In order to attain a gradual transition to this objective, we must link the enterprises' total wages with economic returns, promote staff members and workers according to individual labor contributions across the country, and keep improving these measures. On this basis, we must gradually halt the relationship between the wages of enterprises and those of organizations, institutions, and

units so as to switch the mechanism for increasing enterprises' wages onto the track of relying on the enterprises' own development of production and increase in economic returns. [passage omitted]

#### 2. Deepening Reform of the Enterprises' Labor System To Make Proper Arrangement for Job Placement of Redundant Personnel

To smoothly carry out the reform of commodity prices and wages, and to ensure a relatively large increase in enterprises' labor productivity, we must endeavor to eliminate the serious malpractice of the "iron rice bowl" that exists in the current labor system, adopt the market mechanism to use excellent personnel and offer job opportunities through competition, and truly grant decision-making powers to enterprise managers for selecting employees and to laborers for choosing jobs. The labor system reform has taken an important step forward in recent years. The labor contract system has been generally adopted among newly recruited workers by state enterprises after the State Council's promulgation of the four regulations on labor system reform. However there is still an overwhelming majority of workers who occupy fixed positions in enterprises long before the arrival of new recruits. Overstaffing has become one of the major obstacles to enterprises' current efforts to transform managerial mechanisms and increase economic returns as there is only employment and no termination of employment. We must on the one hand expand the scope of our implementation of the labor contract system and perfect its measures while deepening reform of the enterprises' labor system; on the other hand, we must strive to make the system under which workers occupy fixed positions more flexible by focusing on the solution of job placement for redundant personnel. [passage omitted]

#### 3. Actively Carrying on Reform of the System of Insurance and Welfare To Expedite Implementation of Labor Insurance With Participation by Various Sectors of Society

China's current labor insurance system for enterprise staff members and workers is basically handled by enterprises in accordance with state regulations. Relatively few sectors of society are involved in the system, resulting in an uneven burden for enterprises and adversely affecting the increase of economic returns and a reasonable flow of personnel. Though the labor insurance system has begun and played a certain role in deepening enterprise reform in recent years, it still cannot adequately meet the needs for the development of a socialist commodity economy. Therefore further reform is necessary. The reform of the labor insurance system must be integrated with the reform of labor and wage systems and must take into consideration staff members and workers' pensions, the wait for job opportunities, medical care, and injuries suffered on the job in a comprehensive manner in order to establish a social insurance fund system and implement its management by various sectors of society. [passage omitted]

In short, the reform of the three systems of labor, wages, and insurance and welfare is a major integral part of deepening enterprise reform. We must firmly follow the plans drawn up by the CPC Central Committee and the State Council, actively promote the reform of the three systems, and work together with the people to make contributions to success in the crucial stage of restructuring the economic system.

#### **Vice Minister Discusses Contract Management System, Improvements**

40060071 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINESE ECONOMIC SYSTEM REFORM] in  
*Chinese No 8, 23 Aug 88 pp 7-11*

[Article by Zhang Yanning 1728 1750 1337: "Perfect and Develop the Contract Management System and Improve Enterprise Economic Performance." This article is an abridgement of a speech delivered by Zhang Yanning, vice-minister of the State Commission for Restructuring the Economic System, at the National Enterprise Contracted Management Responsibility System Symposium on 12 July, 1988.]

[Text] At present, China is faced with many conflicts which must be resolved and many difficulties which must be conquered. Ultimately, we must rely on better industrial performance, and to improve industrial performance, for now, we have to rely on what can be accomplished by the contracted management responsibility system. This means we must concentrate our energy and provide careful guidance to perfect the enterprise contract management system within the next 2 or 3 years.

So far this year, we have made progress with the contract management system, as manifested in the following areas:

**1. The introduction of competitive mechanisms and invitation for contract bids.** The competitive mechanisms have injected new life into enterprises and have become an important part of perfecting the contract system. Last year, the system was adopted by only the medium to small, low-profit enterprises in a handful of localities. Today, some large and mid-sized enterprises are also inviting contract bids. Introducing the competitive mechanisms into the contract management system has shattered the bonds of the old management system on enterprises and has hastened the maturity of a new management system. One, it has abolished the traditional way of selecting and appointing enterprise leading cadres and has turned a "horse show" into a "horse race," and as a result, many management personnel who are not afraid to make changes have emerged. Two, it has facilitated the "separation of the two rights" and has reduced administrative intervention by government departments so that enterprises can really exercise the rights of self-determination. Three, it has eliminated the practice of "one-on-one" negotiation of contract bases, and by means of competitive bidding, we have gained new knowledge of enterprise potential and have made

the setting of contract bases more scientific and reasonable, which helps us tap enterprise intrinsic potential. Four, it has changed the egalitarian psychology between managers and workers and has increased the managers' authority and the workers' sense of responsibility. Five, it has increased the sense of urgency among enterprises to develop themselves. Most managers not only want to do a good job with their production and operation during the present contract period, but they also have in mind winning the next contract bid, and therefore they are paying more attention to the momentum of enterprise development.

**2. The practice of contract pledges and risk sharing.** Everywhere, people are looking for ways to turn the management's contract responsibilities into the entire staff's contract responsibilities and mobilize the enthusiasm of the managers and the workers. Some areas have made comprehensive use of competition, risks, and benefits to give play to the tremendous effect of the contract management system. New formats, such as contracting by the entire staff and contract pledges, have emerged. These new formats have drawn the managers and the workers closer together and have enhanced the business concept of the entire staff. They have reinforced the risk mechanisms and enabled enterprises to take care of their profits and losses. They also have turned a part of the money in the hands of the staff and workers into production funds. Their further development may mean the unification of pledging, fund gathering, and stockholding, and they may lead to a new way to augment the functions of contract management and make enterprise reform more thorough.

**3. The phenomena of enterprises contracting with other enterprises and enterprises merging with other enterprises.** Since last year, many localities have promoted the practice of inter-enterprise contracting and enterprise mergers. This is the result of the development of the contract management system. Inter-enterprise contracting is the transfer of management rights, and enterprise mergers are the transfer of property rights together with management rights. Through contracting and mergers, the property rights and management rights of the inferior enterprises shift to the superior enterprises, giving full play to the latter's personnel, fund, and technological advantages, and the grounds and facilities of the inferior enterprises are put to better use, thus promoting proper enterprise organization and better product-mix and increasing economic benefits. Between January and May of this year, the industrial output value of the Jilin Chemical Industry Company which contracts with 13 of Jilin's small enterprises has increased 20 percent; its realized profit has increased 51 percent. Baoding relied on enterprise mergers to eliminate the city's public transportation enterprises' operational losses. Wuhan and Chengdu and other localities have started enterprise property rights exchange markets.

**4. Breakthroughs in enterprise comprehensive internal reform.** Contract management with fixed contract base



forces enterprises to tap latent potential and rely on comprehensive internal reform to generate more economic benefits. Enterprise contract management, especially contracts open to public bids, has reduced administrative interference so that enterprises can exercise fully their rights of self-determination and proceed with internal reforms, and they have achieved some breakthroughs. First is reorganization. Many enterprises have set up new organizations according to their own production and operation needs, based on the principle of simplicity and effectiveness, in an effort to eliminate the rigid internal hierarchy. Second, the pursuit of personnel system reform. Mid-level cadres are now hired on competitive basis, and there are contract responsibilities at every level, eliminating the cadre "iron chair" and permanent tenure system. This has facilitated a proper flow of cadres and has improved the way enterprises are staffed. Third, reform of the labor system. More and more enterprises are promoting the optimization of the labor composition, and we have overcome one enterprise reform difficulty. Fourth, reform of the wage system. Many methods are now being used to link an enterprise's total wage bill to its economic performance, and this has created proper conditions for reform of the enterprise internal allocation system. Based on their own attributes, enterprises have adopted the regular salary, piece-work wage, variable wage, and composite wage systems. These four enterprise internal reform programs have achieved good results. In Shenyang, 786 industrial enterprises (35.7 percent of the city's industrial enterprises) have improved their labor composition, and more than 44,000 people have been removed from their posts, and through many different channels, mainly by popularizing the tertiary industry, more than 33,000 people have found other work.

**5. The experimental separate fund accounting system.** In compliance with the requirements stipulated by the "Contract Management Provisions," some localities have been actively setting up trial implementation of the separate fund accounting system, and a few enterprises have been selected as experimental units. Separating enterprise funds can, first, locate the source of funds which enterprises can use to take care of their losses. Second, it makes the assessment of appreciation of enterprise assets more scientific and encourages enterprises to pay attention to long-term development and overcome short-term behavior. Third, how much or how little funds an enterprise has not only affects the esteem of the manager and staff but also affects the expansion or loss of enterprise management rights which enables superior enterprises with ample funds to acquire inferior enterprises.

**6. The legislation of the contract management system.** The "Enterprise Law" treats the contract management system as a principal form of enterprise management. The "Contract Management Provisions" regulates every important aspect of contract management. The promulgation of the "Enterprise Law" has provided the legal basis for promoting the plant manager responsibility

system and has unified previously different understandings. In a contract management enterprise, the central role, the central functions, and the tenure of the plant manager are clearly defined, and we are in the process of further straightening out the relationship among the party, the government, and industry. Today, enterprises have gathered some fairly good experiences.

**7. The development of enterprise groups amid thorough reform.** Based on incomplete data, at present, there are close to 1,000 large enterprise groups. The development of enterprise groups has shown some new trends. One, the alliance at the core level of enterprise groups is beginning to break down the "three fixed" pattern. Two, new forms of enterprise groups are constantly being created; their functions continue to grow, and these groups are becoming more diversified and comprehensive. Three, some enterprise groups made up primarily of scientific research and technology units have emerged. Four, enterprise groups have set up finance companies and opened up new channels to circulate funds among themselves. Five, some enterprise groups are beginning to turn outward and are boldly entering the international market. Enterprise groups which are developing foreign markets are exploring the possibilities of cooperation and joint efforts among themselves.

**8. The growing interest in the study of contract management theories.** The implementation of enterprise contract management system has given impetus to the study of contract management theories. Many are broadly exploring the mechanics, the role, and the functions of the contract management system, the relationship between the contract management system and other reform programs, as well as the development and perfection of the system itself, and we are getting good results.

**9. The emergence of some new management techniques.** The contract management mechanism encourages enterprise managers and staff to actively seek management techniques that best suit the individual enterprises, to improve performance of basic tasks, arouse the enthusiasm of the workers, manage the plant stringently, and correct the defects of slack labor discipline and low efficiency. Many enterprises have turned to the "full load work method," and some have gained experience with the "silent, high-efficiency optimization work method" and the "group management method." These methods have generated good results in practice.

This year, the contract management system is expected to generate even greater benefits. Based on preliminary statistics, between January and May of this year, the nation's budgeted GVIO is 11.3 percent higher than last year's for the same period; income from sales has increased 19.1 percent; realized profit and taxation have increased 12.5 percent; profit and taxes turned over to the authorities have increase 8.3 percent, enterprise debt redemption has increased 42.9 percent; enterprise

retained profit has increased 20.6 percent, and state revenues have increased 11.6 percent. All these are directly attributable to improved industrial performance.

So far this year, although the contract management system has become more thorough and has developed, from the point of view of the nation as a whole, progress has been uneven. Some enterprise contract management have delivered low quality products. Last year, 10 to 20 percent of the contracting enterprises failed to fulfill their contracts. In the next 6 months, our mission is to follow the central government's "Eight-Character Policy" and the overall goal of the development of the socialist commodity economy to make the implementation and perfection of the enterprise contracted management responsibility system and the thorough reform of the enterprise management mechanisms the central focus of enterprise reform. We must persevere and continue to work on the contract management system. In popularizing the system, we must further emphasize quality in contract management and give play to the inherent capacity of the contract management mechanisms to generate greater economic benefits.

**1. Implement the "Enterprise Law" diligently, deepen the reform process, and run the factories stringently according to the law.** We must get to know the "Enterprise Law" well, adopt new concepts, and be more conscious about managing the factories according to the law. The soul of the "Enterprise Law" is the separation of the two rights. The various economic management departments should assume new functions, devolve power, and reduce administrative meddling to create a more spacious business environment for enterprises. The core of the implementation of the "Enterprise Law" is the adoption of the plant manager responsibility system. Handling properly the relationship among party, government, and industry in enterprises remains the important issue in the plant manager responsibility system. As seen from the experiences of some enterprises, appointing the party committee secretary concurrently as political assistant plant manager seems fairly workable and may be tried by other qualified enterprises. Smoothing the relationship between the managers and the workers is another important task in perfecting the contract management system. By promoting the entire staff risk-pledging method and by amplifying the workers' representative assembly system and other methods, we can enhance democratic management and give play to the role of workers as masters.

**2. Popularize the competitive mechanisms; select the most qualified managers, and raise enterprise management to a higher platform.** Competitive bidding is a key link in contract management. If there is competition at the factory level and good entrepreneurs become plant managers through the process of competitive bidding, the old stale situation can be changed to expedite the enterprise internal reform processes. Some competitive bidding

processes are not totally honest and administrative interference is still visible in some instances. For the next step, large enterprises with the proper conditions should begin to implement competitive bidding. Enterprises already entered into management contracts should advertise positions at every level and contract responsibilities at every level internally. From the headquarters to the branch plants, to the workshops and work groups, competitive mechanisms should be set up, and the cadre open hiring system should be integrated with the system of selecting the best workers for the posts. Enterprises' poor choice of managers and failure to fulfill contracts should be handled according to the "Contract Management Provisions" to terminate the contracts and invite new bids to select new management. Through competitive bidding, we hope to gradually have a contingent of entrepreneurs and then manage enterprises properly.

We should uphold the principle of "openness, equality, democracy, and selection based on merits" when bringing in the competitive mechanisms, and we should try to eliminate the restrictions posed by administrative divisions, the nature of property rights, and the different professions, and promote fair competition in an open environment. Areas should create the proper conditions, set up markets for contract bids and markets for enterprise management personnel, provide information on contract bids, nurture and train personnel, and by way of the market, reduce direct government interference in the bidding process. We should also continue to guide and train the unsuccessful bidders so that they will continue to improve themselves and participate in future bids.

**3. Through inter-enterprise contracting and enterprise mergers, encourage enterprises to turn to the market and develop themselves amid competition which let the superior eliminate the inferior to achieve optimal enterprise structure.** In guiding enterprises, we should pay attention to three elements: one, we must be practical. There should be contract management where contract management is desirable, and there should be mergers if mergers are necessary. The emphasis is on optimizing enterprise structure and product-mix. Two, enterprises should follow the principle of mutual benefits voluntarily rather than have the departments in charge coerce them into cooperation. We should prevent impoverished enterprises from robbing rich enterprises, and avoid overzealous mass action. Three, government departments should start from the industrial policies and regional economic development strategies and take the initiative to guide enterprises, offer better service, coordinate the various interest relationships, and prevent any loss of state assets. We have yet to find ways to link enterprise mergers with the implementation of the "Bankruptcy Law" when it takes effect. How to deal with enterprises which are long-term money losers poses another problem for thorough enterprise reform. To deal with the poorly run and poorly managed enterprises which are always losing money, we must first be determined to invite competitive bids for the management contracts. Enterprises whose problems cannot be solved even by competitive bids may resort to declaring bankruptcy, and a

bankrupt enterprise may be taken over by a superior enterprise. Or, without declaring bankruptcy, some enterprises may merge directly with others. Some small enterprises can be auctioned off. Decontrol of enterprise operations in Zhejiang's Lanqi City has been successful; other localities can similarly select a few industries with more or less balanced supply and demand conditions, such as the watch, sewing machine, radio, and motorcycle industries, and decontrol their operations and let them take care of their own profits and losses. In short, we must find many effective ways to push enterprises into the market, and in the competitions where the superior eliminates the inferior, we can fundamentally solve the problem of long-term money losing enterprises.

**4. Implement labor system reform to achieve optimized labor composition.** Today, many areas have adopted many effective measures to improve the labor composition. This is a good beginning. From what has already been put into practice, we find that there are two ways to deal with the surplus personnel. First, we can rely on enterprise internal absorption, that is, let the workers stay in enterprises to wait for work. Another way is to send them out to society and set up a social security system to take care of them. From the long-term perspective, the latter is in the direction of labor system reform, but in the short-run, because we do not have a social security system yet, and without the macro-environment, we cannot let society make large scale arrangements for these people. A more workable way is to rely on enterprises themselves; it is better to let enterprises adopt different ways to absorb the surplus labor.

We feel that to optimize the labor composition, we should emphasize five elements: One, we should implement a policy to reduce the number of workers without reducing the total wage bill, and we have to mobilize the enthusiasm of enterprises to improve composition and get rid of unnecessary personnel at every link. Two, first we improve the cadres, then we improve the worker; first we make improvements in the classrooms, then we make improvements in the workshops. Our goals should be clear, and our assessment process should be fair, so that each post is hinged on competition, and income is dependent on contributions. Three, enterprises should open more doors for the surplus workers and extend the essential fund, technological, and equipment support which will be reimbursed. New operating units must be independent accounting units capable of taking care of their own profits and losses; they should not count on sharing "the same big pot" with existing enterprises. Four, relevant government administrative departments, including the labor, industrial and commercial, financial, banking, public security departments, should support this effort and act in concert. Five, enterprises should maintain a certain number of reserve personnel and trainees to substitute for on-the-job workers to start an internal flow of personnel.

**5. Set up contract management risk mechanisms and form a benefit and risk sharing relationship between operators and producers.** At present, we should be careful not to use

risk pledging as another way to get more bonus money. Instead, pledging should be a way to assume risks. The pledge term should coincide with the contract period as much as possible. We should propose that the pledge amount should increase each year to enhance the ability to share risks. When an enterprise loses money, the loss must be made up by the pledge money, and when it makes a profit, the staff and workers may get a certain amount of interest payment.

**6. Expand the separate fund accounting pilot project.** Implementing separate accounting of funds is an important part of perfecting the contract management system, and it is one way to let enterprises take care of their profits and losses. When enterprises own their own funds, they will have the means to take care of their own losses, and this also makes mergers, joint operations, and stock participations possible. The "Contract Management Provisions" regulates the separate accounting of funds. Some areas have already formulated methods which will be tested in many experimental points to gather experience and will be popularize step by step.

**7. Pay attention to enterprise groups and explore the stockholding system.** Enterprise groups are one form of enterprise organization which gives impetus to the development of the productive forces, and the stockholding system is the important medium which gives impetus to the development of enterprise groups. Enterprise groups have an advantage in personnel, technologies, facilities, management, and information and other areas. They can bring along the development of the small and mid-sized enterprises and make possible the optimized mix of productive elements and the proper allocation of resources. At present, an important issue in developing enterprise groups is the handling of the asset relations within these groups. We can first consider increasing the amount of assets within the enterprise groups. By investing in each other and by stock participations, we can gradually develop a process of stock purchase based on the appraisal of enterprise asset reserve. We should develop the better enterprise groups into large stock companies where funds are the critical link and stock control is exercised at every level. At the same time, we should begin careful studies of such issues as property rights, leadership systems, functional mechanisms, the stockholding system, asset appraisal, stock transfers, profit allocations, and the protection of rights.

Guangzhou, Shanghai, Shenyang, and other cities have started securities markets on a trial basis to give enterprises an opportunity to gather funds in the securities market by means of stock issuances. This practice not only effectively diverts a part of society's consumption funds to production but also clarifies enterprise property right relations. It facilitates the separation of government and enterprises and the separation of the two rights, and it also amplifies the enterprise operating mechanisms so that enterprises truly have the rights of self-determination. At the same time, stock issuance is also an effective way to utilize market mechanisms to

evaluate enterprise operation and rate enterprise credit worthiness. Qualified cities and enterprises, especially the externally-oriented enterprises, may set up experimental units. Some low-profit or unprofitable small enterprises under the people's ownership system may be sold by the individual share or auctioned off in their entirety. Small enterprises adopting the method of leasing should continue to be perfected in accordance with the "Provisions on Leasing." Concerning the other experimental enterprise operation formats, such as the enterprise management responsibility system, the asset management responsibility system, and after-tax contract management and so on, we should concentrate on the pilot projects and continue to make improvements and make a timely summation of the experiences.

**8. Do a good job with enterprise technological improvements and produce better products.** Price reform will intensify competition among enterprises to establish the superior and eliminate the inferior. Enterprises should seize the opportunity and work hard to make technological improvements. In accordance with the needs of the domestic and foreign markets, we should develop new products, increase product varieties, improve quality, and produce better products. In recent years, technological transformation of older enterprises, the importation of advanced technologies, the digestion and absorption of new technologies, the emergence of Chinese-developed techniques, and the adoption of international standards and other efforts have given us fairly good work systems and work methods, and we have gathered experiences. We must continue these efforts; we cannot stop now. Making technological improvements and reinforcing momentum is an important part of the management responsibility contracts. We must examine and supervise more closely to ensure fulfillment of our goals.

**9. Improve management techniques and tap enterprise internal potential.** When enterprises enter into management contracts, the managers have more rights to make operation decisions. In addition, the introduction of competitive mechanisms and the optimization of the labor composition have also made stricter enterprise management possible. Enterprises should start from the high plane of economic development strategies, and maintain strict management to reverse the phenomena of slack discipline, serious wastefulness, frequent accidents, and low efficiency. We must continue to promote proven effective management techniques such as the "full load work method," "within-factory bank," and other modern techniques. We should transplant the good management techniques used in township enterprises and Sino-foreign joint venture enterprises into enterprises owned by the whole people and focus on improving quality, reducing consumption, increasing benefits, and guaranteeing safety. We have to continue to develop enterprise promotion activities to achieve higher enterprise management standards. Enterprise promotion must emphasize solid performance of basic work and focus on lowering production cost and raising product

quality. In assessing promotions, we should uphold standards, simplify procedure, and stress the practical effects. We must not be arbitrary. At present, the various departments are conducting too many unnecessary examinations and evaluations in enterprises. They have become a serious burden. The State Council has repeatedly warned that area supervisory departments must adopt firm measures to reduce enterprise economic and non-economic burdens. Enterprises have the right to refuse unnecessary examinations and evaluations. We must stop arbitrary apportionments, dinner invitations, gift-giving and other unhealthy tendencies.

**10. Strengthen the political ideology of enterprises and mobilize the workers' enthusiasm.** In the wake of thorough reforms, especially with the introduction of price and wage reforms, each worker's personal benefits will soon be affected, and it is likely that there will be ideological problems. We must pay special attention to enhancing ideological and political works among enterprises. We must educate the masses of cadres and workers on the significance of the price and wage system reforms and make them understand that doing their duties, improving enterprise economic performance, and augmenting our national strength are the foundation and guarantee of successful price reform, and consequently we can mobilize reform enthusiasm, increase confidence, and unite the people to overcome difficulties. We must firmly and unrelentingly advocate and nurture the socialist enterprise spirit and enhance the workers' work ethic. We must educate the workers about the legal system and about tendencies and discipline in the factories and continuously raise the quality of the contingent of workers. Based on the new situation generated by thorough reform, and while we want to carry on the legacy of our fine tradition, we must also make progress and create new ideas for our ideological and political work. We must advocate a democratic, equal, and two-way work method to integrate ideological and political work with the reform and production processes and with the worker's thoughts in order to get through to the workshops, the work groups, and the people. The plant managers must emphasize material civilization as well as spiritual civilization. Leading cadres at all levels must care for the livelihood of the masses and help them solve practical problems and mobilize their enthusiasm.

Recently, the central government has decided that we must shift the focus of the restructuring of the economic system to price and wage reforms. These reforms will lead to drastic changes in enterprises' external environment, and they will also lead to a redistribution of benefits between the state and enterprises and will also affect enterprise contract management. Higher prices of raw and processed materials will have a greater effect on the processing enterprises. They should work harder to improve their economic performance so that they can absorb the higher costs. At the same time, the state should also adopt some necessary policies and measures. We must understand fully the new situation enterprises are faced with.

The Party Central Committee and the State Council have put the hopes of successful price and wage reforms on enterprises' improving their economic performance. In the final analysis, the state's financial power comes from enterprises, and we are relying on enterprises to absorb the higher prices, and therefore, their ability to generate more economic benefits is really the only hope for the country to pull through the present difficult conditions and extricate itself from the predicament. This is also a test for the contract management mechanisms. Thus, from now on, enterprises must focus their own attention on improving economic performance and try their utmost to give play to the contract management system, perfect enterprise internal reforms, augment basic management tasks, work hard to increase production, adjust the product-mix, save energy resources and reduce waste, cut expenditure, reduce use of funds, accelerate fund circulation, diversify operations, and make every effort to enhance enterprise ability to adapt to market changes as well as their ability to digest price changes. At the same time, every enterprise must learn to restrain its own behavior and correct its business ideology. Enterprises must not use devious means, such as raising prices arbitrarily, to obtain illicit profits. Enterprises must slow the accelerated increase in consumption funds. They must refrain from handing out bonuses or in-kind goods recklessly. At the same time, we must reduce the number of intermediate links to stop the draining of enterprise profits and ease the difficulties brought on by higher raw and process material prices so as to prepare the way for the pending price and wage reforms.

This year the contract system is expected to generate even greater benefits. We must seize the opportunity and seriously resolve the new conflicts and problems encountered by the contract management system and do a more solid and effective job with thorough enterprise reform and strive to generate even greater economic benefits.

### **Journal on Need To Understand 'Dual Nature' of Contract System**

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[Article by Zheng Mingshen 6774 2494 6500, edited by Yang Wenyu 2799 2429 3768: "On the Dual Nature of the Contracted Operation Responsibility System"]

[Text] The contracted operation responsibility system (below referred to as "the contract system") emerged from the specific conditions during the initial stage of our country's economic structural reforms, that is, from a situation where the old system was changing to the new and the two systems coexisted. It thus includes some aspects which accord with the planned commodity economy, and some obvious remaining vestiges from the old product economy. Thus, it has a dual nature.

Understanding the dual nature of the contract system has major theoretical and practical significance for correctly appraising the historical position of the contract system in economic structural reform and scientifically predicting its trend of development. This will assist us in overcoming the various ideological obstacles which exist at present and which result in a low evaluation of the contract system, in promoting the contract system with unswerving efforts, and in fully bringing its benefits into play. At the same time, it will also allow us to guard against the other extreme of having an excessively high assessment of and excessively high hopes for the contract system, and will reduce blindness. This will enable us to consciously follow the correct orientation in perfecting and developing the contract system and in encouraging the continued deepening of enterprise reforms.

The dual-nature idea is a theoretical summary of the basic nature of the contract system. Its substance is a comprehensive reflection of the various types of actual contradictory relationships both within and outside the contract system. Recognizing the dual nature and obtaining the essential conclusions requires having a firm foothold in practice and summing up and analyzing the various contradictions which are innate in and have existed from beginning to end in the process of the emergence and development of the contract system.

### **1. The Contradiction Between the Diversification and Standardization of Contract Forms and Content**

The contract system has emerged where our country's economic situation is uneven, where there are vast and numerous differences between enterprises, where the commodity economy and the domestic market are very underdeveloped, and where there is a requirement that it accord with the development of a socialist commodity economy. Thus, its forms and contents are extremely diverse. The reason the contract system has been able to be widely spread and to become a major form for enlivening whole-people ownership enterprises at the present stage is that it is very adaptable and flexible and does not demand uniformity. The diversity of the contract system is its outstanding characteristic and at the same time shows that the contract system is not standard. The non-standard nature on the one hand is recognition by the state of the basic attribute of enterprises as commodity producers, but on the other hand is treatment of enterprises as incomplete commodity producers. In the long run, this will result in a series of contradictions with the trend toward standardization in the planned commodity economy: The contract system enables enterprises with the same amounts of funds to have different economic responsibilities toward the government in terms of the profits turned over. This will result in a contradiction with the average rate of profit on funds, which will inevitably be formed through the development of the commodity economy and the trend toward standardization which will occur when enterprises are required to fulfill economic responsibilities on this basis. The contract system results in enterprises

being able to differently enjoy benefits from different policies, and thus they are in unequal competitive positions. This is in contradiction with the full bringing into play of regulation through market mechanism and the standardization of movement mechanism by which the superior excel and the inferior are eliminated.

The contradiction between diversification and standardization under the contract system not only objectively exists, but also has a certain positive role to play for a certain period. Our country's economic development is not evenly developed and, in addition, during the reforms there will be continual readjustment of state policies and various relationships. Thus, overzealous attempts at standardization may very easily produce the problem of "enforced uniformity." Standardization must be a process. At present, we recognize the necessity of diversification, and the development of diverse types of contract systems not only will not obstruct standardization, but will in fact create conditions for the realization of standardization. Thus, in this sense, following the improvement and development of the contract system, the characteristic of diversity will gradually be lost, and the majority of enterprises will operate along the standardized track. That is to say, diversity will have no option but to accord with the new environment, move towards its opposite, and be replaced by standardization. When this old contradictory unity of diversity and standardization disintegrates, a new contradictory unity will be born, and the contract system will no longer exist, having developed into a new operational form.

## **2. The Contradiction Between the Vertical and the Horizontal Comparisons in the Fixing of Contract Base Figures**

A core component of the contract system is the firm fixing of a base figure for the amount to be handed up. This is one of the basic characteristics of the contract system. Thus, rationally fixing contract base figures is the key to guaranteeing that the enterprise contract system obtains ideal results.

The appraising and deciding of an enterprise's contract base figure is usually done on the basis of the amount of taxes and profits handed up by an enterprise in the previous year or the average figure for profits and taxes handed up in the previous two or three years. This figure is then appropriately adjusted in accordance with the average profit rate on funds in that region and that industry. That is to say, the vertical comparison is taken as the main indicator, while the horizontal comparison is used for reference. This method has to be used in a period when the new and the old systems coexist. The reasons for this are: 1. The pricing system is seriously irrational and there is a great disparity between the high and low levels of profits of enterprise. Only by using vertical comparison to fix base figures is it possible to alleviate this contradiction. 2. Enterprise economic results are poor and the state finances are tight. Only by firmly fixing the base figure and the rate of growth is it

possible to guarantee the stable growth of state income. At the same time, the amounts above the contract figure can be retained and this acts as motivation, encouraging enterprises to improve their economic results, and thereby creates a more relaxed economic environment for reform.

Although at the present stage, the vertical comparison has its inevitability and advantages, it cannot be denied that it also has some irrational aspects. First, vertical comparison is only a dynamic comparison of the amount that an enterprise produces, and it cannot accurately show the actual level of the enterprise's economic results. Thus, fixing a contracted amount to be handed up on the basis of vertical comparison and linking the interests of the enterprise and the staff and workers with the growth of profits and taxes handed up, is clearly in contradiction with the method of setting a figure through horizontal comparison. Second, if there was only vertical comparison, it would be difficult to avoid the situation of whipping "the fast ox." Also, this would result in enterprises taking on little risk and getting large profits. It would result in them haggling with the state and doing all they can to keep the base figure at a low level. This would especially be true of those enterprises where, for the moment, it is difficult to call for competitive tenders. Third, under commodity economy conditions, enterprise development always has a cyclical nature, and operational peaks alternate with operational troughs and progress is through a wave pattern. Using vertical comparison to fix base figures means that it will be difficult to avoid inequality of advantages between enterprises in different stages of development, and clearly this is not in accord with the demands of the patterns of commodity economy operation.

The above-mentioned problems are, in the end, due to the fact that the contract system does not use the unified yardstick of socially necessary labor, but uses specific labor to assess the enterprise's contribution to the society. The method of vertical comparison is a big step forward from the unified receipts and expenditures under the old system. The special economic interests of enterprises have been recognized, which has given strong motivation and real ability to enterprises to develop themselves. However, it does not fully implement the commodity economy principle of equal competition and it is inevitable that an antagonism will appear between it and the objective trend of horizontal comparison.

## **3. The Contradiction Between Fixed Contracted Responsibility and Enlivening the Market**

The contract system, on the one hand, wants to let enterprises have comprehensive output results, with the main part being the profits and taxes to be handed up as fixed by contract; and on the other hand wants to expand the enterprises' decision-making power, so as to bring into play the role of market mechanism and allow enterprises to gain the conditions by which to fulfil their

economic responsibility. This forms a contradictory relationship, which involves both mutual reliance and mutual exclusion, between contracted fixed responsibility and enlivening the market.

When we say mutual reliance, it refers to: First, only when enterprises have fixed contracted tasks in terms of what is to be handed up will they have pressure and motivation, and only thus will they be able to retain that which they make in excess of the contract figure, increasing their financial capacity for self-development. In this way, the conditions for the formation of a market system will truly be there. Second, seen in terms of the conditions necessary for the enterprises to complete their contract tasks, only if the market is enlivened so that the enterprises can, in accordance with market information, make their own decisions about adjusting production and operational activities, and can obtain their diverse indispensable production factors from many markets, will they be able to fully fulfill the economic responsibilities they have taken on. It can be seen that between a fixed contracted economic responsibility and enlivening the market, there is a relationship of mutual promotion and an identity.

However, we also need to look at the mutually restricting relationship between the two. This is mainly manifested in the fact that when the economic responsibilities are set down through contract, it is under conditions whereby the market is not very vigorous, there are few non-definite factors, and market changes are easy to master. In this way, as soon as the market changes in a way which was not predicted, there appears in the interests relationship between the state, enterprises and staff and workers, a slant which is of great benefit or great harm to a particular side, and there is a need to carry out readjustment.

In the present situation in our country where the commodity economy is not developed, the antagonistic relationship between the economic responsibility of enterprises fixed by contract and enlivening of the market will not intensify for quite a long period and the aspect in the guiding position will be their mutual advantage and promotion. Thus, at present it is extremely necessary and also fully feasible to strongly promote the contract system and to allow it to bring its positive role into play within a greater scope.

Following the continual expansion of the decision-making powers of enterprises and the gradual formation of a market system, market competition will become more vigorous and a large number of non-definite factors will, from various sides, shake the production targets set down by the contracts. This is the trend which will inevitably appear in the development of the commodity economy. If it is further considered that where many enterprises will be participating in the major international cycles, and their production operations will be subject not only to the domestic market but to the influence of the international markets where there are

great fluctuations, then the antagonism between the "fixed" economic responsibilities and the "live" market will change from a hidden to an obvious factor and will become intensified. At this time, if we rely on revision of the contracts to alleviate the contradictions and continue to maintain the contracts, rather than say that the softening of the contracts will greatly lower the authority of the contract system, then the holding of numerous, repeated negotiations and the readjustment of the contract targets will waste both manpower and time and is something which the modern commodity economy with its high-speed operation will not allow. That is to say, the antagonism between the "fixed" and the "live" aspects innate in the contract system will finally destroy the unity of the two, resulting in the disintegration of the contract system. It will thus give way to other operational forms which will better be able to accord with the development of the socialist commodity economy.

#### **4. The Contradiction Between the Limited Nature of Contract Periods and the Long-Term Development Needs of Enterprises**

In implementing the contract system, it is always necessary to stipulate a contract period. Seen from experiences over the last few years, the contract period cannot be too short. Likewise, it is not feasible for it to be too long. Thus, the only option is to adopt a compromise proposal. The "Regulations on the Contract System" stipulate that the period cannot be shorter than three years and many people propose four or five years. In general, what is referred to as a long-period contract is one which runs for three to five years.

Because of the limitations on the contract period which objective conditions determine, a contradiction occurs between it and the long-term activities of enterprises which the commodity economy requires. This contradiction has at this stage not fully developed. This is because the contract system ensures that, within the contract period, the enterprises' legitimate rights and interests are guaranteed and there is little administrative interference. Further, the state has made clear that the contract system is a long-term policy and these factors impel enterprises and staff and workers to proceed from concern for their own interests and to stress the strengthening of the enterprise's reserves. However, as has been stated above, the long-term contracts are only 3-to-5-year contracts, a period too short to allow enterprises under a commodity economy to achieve the best results. As the influence of the great number of indefinite factors from the external environment becomes increasingly great, in order to ensure that they can firmly complete the economic targets fixed by contract, the enterprise operators and staff and workers are very likely to ignore major strategic projects which require a long cycle, involve great risk and which will not necessarily see results during the period of the contract, and instead make choices which are, from the long term, not of benefit to the enterprise and not of benefit to the state.



### 5. The Contradiction Between State Administrative Intervention and the Enterprises Making Their Own Operational Decisions

Under conditions where the old system and the new coexist, it is very difficult for enterprises to resolve the problem of excessive intervention from upper-level organs. As compared with other operational forms, the contract system ensures that there is a direct relationship between the interests of the operators and those of the enterprise, thereby strengthening the impetus for enterprises to take their own operational decisions and to protect themselves. Further, it provides enterprises with a weapon by which to resist unnecessary interference—the contract. Like a wedge inserted between the state and the enterprises, these contracts are able to play a role of forcibly separating the government from the enterprises and separating the two rights (ownership rights and the rights of operation). The contracts entered into have legal effect and they restrict the actions of both the state and the enterprises and change soft restrictions into hard restrictions. Further, these wedges which the contracts constitute can on the one hand encourage to a certain degree the separation of government and enterprises and the separation of the two rights and on the other hand can, through negotiations and the inviting of tenders, harmonize state planning and enterprise targets, achieve an agreement which both sides can accept, and at one stroke resolve the problems of microeconomic enlivening and macroeconomic control. This shows that in the specific environment during the initial stage of reform, the contract system will be able to effectively encourage enterprises to develop in the direction of becoming commodity producers which take their own operational decisions, and demonstrate their characteristics and superiorities.

However, the contract system still leaves wide scope for interference, and does not fully resolve the problem of unnecessary administrative intervention. Rather, it just reduces its scope and changes its form. The reduction in its scope is manifested in the fact that after the enterprises enter the contracts, they have the operational autonomy as stipulated in the contract and administrative intervention is excluded from this range. However, this range has a flexible nature and in regard to which of the state's powers are given to enterprises and which remain in its own hands, the initiative lies with the state. The changes in form are manifested in the fact that administrative intervention has changed from a continuous process to intervention in phases. That is to say, as it is restricted by the contracts, the state cannot, like before, arbitrarily interfere at any time in the production operations of enterprises. However, in the early and latter period of the contracts, through its powers as the issuer of the contract and as assessor, it still has a powerful influence on the enterprises. At present, in the practice of contracting, there has appeared the phenomenon of more and more targets, including even family planning targets, being included in the contracts. This prominently shows the real possibility of intensified administrative intervention.

An analysis of the five above-mentioned contradictions will, in summary, show the dual nature of the contract system. On this basis, what conclusions can we draw in terms of the historical position and development trend of the contract system in the reform of the economic structure? On the one hand, we cannot use a static viewpoint to view the contract system, and negate it on the basis that it brings with it vestiges of the old system. We should recognize that the implementation of the contract system is actually beneficial to promoting the growth of the new system and then gradually eliminate the vestiges of the old system. If we did not pass through the contract system stage and tried to pursue an ideal program straight ahead, we would never achieve the goal of establishing a new system. On the other hand, we must not assess the contract system too highly on the basis of the positive role it has played. The dual nature of the contract system determines that it is only a generally effective mode of enlivening whole-people ownership enterprises in a period when the market system is still in the stage of formation, when market mechanism has not been fully brought into play, when enterprises' operational mechanisms are not complete and when there is a gradual change taking place from the old system to the new. The process of development of the contract system is also a process by which the new system is being gradually established. That is to say, this is a process by which the contract system is moving toward its own negation and will eventually be replaced by new operational modes. If this development trend of the contract system is not accepted and it is felt that the target model for enlivening whole-people ownership enterprises has already been found, the the long-term task of the deepening of enterprise reform will be restricted within the scope of perfecting the contract system. This will very likely result, during the future course of deepening reform, in the smothering of new experiences. Like the present ideas which negate the contract system, this concept is also disadvantageous to the deepening and development of the reform of the economic structure.

Finally, two points need to be explained: The first is that what is noted above in terms of the development trend of the contract system refers to the majority of regions, industries and enterprises. However, it does not preclude the possibility that some regions, industries and enterprises may, because of their special conditions, have the contract system for a longer time. This is because our country's economic backwardness and economic development is not balanced and it will take great efforts for a long period over several generations before the imbalance can be basically eliminated. Before this, the contract system, which is most suited to an environment of imbalance, will naturally be able to always find a certain space within which to exist. The second is that the disintegration of the contract system will not mean the complete abandonment of all the component elements of the system. The new operational forms will draw in and transform the positive elements of the contract system as their base for existence and development. For example, the separation of the two rights, taking responsibility as



the core, the combination of responsibilities, rights and interests, the unity of the interests of the state, the enterprises and the staff and workers, the full motivation of the enthusiasm of operators and producers, and other essential reform components will still be rich in vigor. Thus, it will be necessary only to change their specific forms and merge them into the new operational forms. In this sense, the implementation of the contract system has done much pioneering work for the reform of the economic structure and its historical achievements will never be erased.

**Goals, Plans for Transitional Economic Regions**  
*HK3110100188 Beijing JINGJI YANJIU in Chinese*  
*No 9, 20 Sep 88 pp 46-50*

[Article by Zhang Ping 1728 5493 of the Academy of Social Sciences of Hunan Province, written in July 1988: "On the Assigning of Reform Goals by Region and the Reform of Transitional Regions"]

**1. Another Look at Our Country's Economic Structural Reform Goal Models**

The goal of our country's economic structural reform has changed from a product economy structural model to a planned commodity economy structural model. However, people's understanding of the planned commodity economy structure are very diverse. I believe that the final goal of our country's economic structural reform is the realization of a system of regulation by market mechanism under the guidance of state macroeconomic planning. That is, from the planning of economic activities, there will be a transition to a market system under planned guidance. A commodity economy and a market economy are, in their nature, the same. A commodity economy is an economy in which exchange is carried out through the market, while the market is the sum total of all the commodity and money exchange relationships. The development of the commodity economy relies on the formation and expansion of the market, while the degree of development of the market is also an indication of the degree of development of the commodity economy. However, the commodity economy and market economy are not a single concept. The former is an economic form and is juxtaposed against the natural economy and the product economy. The latter is an economic movement form and is juxtaposed against the controlled economy and the centralized, unified economy. The market economy is the inevitable product of the socialization of production and the development of commoditization. It is an economic movement form adopted by developed and fairly developed commodity economies and is not just characteristic of capitalism. Our country is still in the initial stage of socialism and if we are to develop the productive forces and achieve socialist modernization, we need to ensure that the commodity economy is fully developed. Similarly, the development of a socialist commodity economy cannot be divorced from the development and perfection of the market. If we are to really develop the commodity

economy, we need to gradually form a complete socialist market system so as to fully bring into play the roles of market mechanism and the law of value. This market system will not only include commodity markets for consumer goods and the means of production, but should also include markets for production factors such as funds, labor, technology, information, and real estate. The process by which the various production factors are turned into commodities is a process by which economic movement becomes subject to the market. In this sense, a socialist commodity economy is also a market economy. However, the basis of a socialist commodity economy is public ownership, and the range of the role of planning and the market is the entire society. Thus, in its nature, the socialist, planned commodity economy can be said to be a planned, market economy. The difference between a socialist economy and a capitalist economy lies not in whether or not they use regulation by market mechanism or whether or not economic movement is regulated through the market. Rather, it lies in the basic difference between the ownership systems. The basic characteristics by which the socialist market economy differs from the capitalist market economy are that it has public ownership as its base and guidance and regulation are carried out through state macroeconomic planning. Only when we have got this point clear in theory and in our understanding and further liberated our thoughts will we be able to dare to study and use as reference the experiences of the development of the modern capitalist commodity economy and draw in those scientific achievements that reflect common laws of the commoditization and socialization of production.

**2. The Assigning of Reform Goals by Region and the Transitional Regions**

There are three basic conditions necessary for the transition from a product economy system heavily imbued with natural economy characteristics to a commodity economy system with regulation by market mechanism under macroeconomic planned guidance: 1) Enterprise property rights must be clarified and a plurality of property rights principals needs to be achieved, so that enterprises truly become independent commodity producers and operators directly face the market and, through the market and with the guidance of market information, engage in their own operations and take responsibility for their own profits or losses. 2) An open, complete, comprehensive market with basically rational prices needs to be formed, thus forming overall market guidance functions. A unitary market cannot bring into proper play the role of regulation by market mechanism, while monopoly markets and divided markets cannot stimulate commodity producers to raise efficiency. Furthermore, closed markets are not beneficial to the development of rational division of work between regions within the country and cannot stimulate the development of international trade. 3) There must be a shift in macroeconomic management from mainly direct management to mainly indirect management. That is, the state will change from directly organizing enterprises to

mainly using, in a comprehensive way, economic measures such as fiscal policies, monetary policies, and industrial policies, together with legal measures to regulate, control and organize the market and, indirectly through market signals and market parameters, guiding the operational decision-making of enterprises. From this we can see that the market is the subject in guiding enterprises and also the object of indirect state regulation and control. It is the key link, joining the state and enterprises. Thus, the formation of a healthy socialist market system and market mechanism is the key in establishing a new system of a socialist commodity economy. The basic differences between the new and the old economic structural models lie in whether or not there is a market, whether or not it is developed fully, and whether or not the market mechanism can bring into play its role of regulating economic movement. Further, the development of the commodity economy and the degree of development of the market are very closely linked. The gradual perfection of the market system will follow the expansion of the commoditization and socialization of production, while the full development of the commodity economy can only be realized through fully developing the role of market mechanism.

Because of the vast size of our country, its large population and the differences, and sometimes huge disparities, between the geographical and resource situations and the level of development of the commodity economy and technological development in different regions, the situation objectively exists in which there is a fairly developed eastern coastal region, an initially developed central region, and an undeveloped western region. In these different economic regions, the degree of development of the commodity economy and the market are at different levels. Thus, a complete market system and market mechanism cannot be formed throughout the country at one time, and economic structural reform goals cannot be allocated throughout the country at the same pace. We need to suit measures to the local conditions, to proceed from the actual situation in the different economic regions and different objective situations, have different requirements in terms of the pace and procedure of reform, and assign different goals to different regions.

It is very necessary and also completely feasible to have the eastern coastal regions take the first steps in reform and opening up and achieve the strategic reform and development goals first.

First, in times gone by, the degree of development of the commodity economy in the coastal regions has been greater than that in the hinterland. Through nearly 10 years of reform and opening up, the commodity economy has developed from being completely undeveloped to a level of medium development, and an incomplete market regulation mechanism (mainly through commodity prices being subject to the market) has been formed.

The development of the commodity economy both creates beneficial conditions for the formation of a complete market system and also objectively requires the speedy establishment of a complete, competitive market system. This will allow the full bringing into play of the role of the market mechanism in regulating the deployment and use of resources and will achieve the rational readjustment of the industrial structure and the optimal arrangement of resources.

Second, the coastal economy is now changing from a mainly internally-oriented economy to a mainly externally-oriented economy involving participation in international trade. Further, international trade activities are mainly regulated by market mechanism. Thus, this requires that the coastal regions' market mechanism be linked with the international market mechanism and demands that the degree of development of their markets be speedily raised, that a complementary market system be formed, and that, in structural terms, this accords with the movement of the international commodity economy.

Third, as the level of economic development of the coastal regions and the level of enterprise economic results and the people's income is fairly high, and the cadres and masses are fairly well aware of commodity economy concepts and have an awareness of markets and opening up, there is quite a strong socioeconomic and psychological capacity to bear up and quite a strong capacity for risk in terms of resolving the key problem in perfecting the market mechanism, that is, in putting in order the original, extremely irrational price relationships.

As the different regions along the coast all have their own positions, characteristics, and advantages, there will also be differences in the order in which the new system is formed. Although Hainan Province's economic basis is quite weak, as it has special regional advantages, in its economic structural reforms, it is possible to implement a single overall track switchover through which it could lead the whole country in coming onto a new economic movement mechanism track. Guangdong Province has superior conditions in that it has many ports and many overseas Chinese. In the last 10 years of reform and opening up, it has opened up the furthest, seen the greatest enlivening, and progressed at the fastest rate. The whole province has been declared a comprehensive reform experimental region, and within three to five years, we can hope to see the establishment of a framework for a new system.

As the coastal regions carry out experiments in overall reform, expand their opening up to the outside world, and implement externally-oriented development strategies, on the one hand this will provide new opportunities for hinterland development and will inevitably spur on the development of the hinterland. This is because: 1) The coastal regions will gradually switch over to mainly externally-oriented economies and this will inevitably

mean that some of the markets of the coastal regions and those of the hinterland will need to be filled by hinterland development. 2) The linking up of coastal region markets and international markets will allow the information, advanced technology, and scientific management experiences obtained from the international market to be transferred to the hinterland and thereby assist hinterland development. 3) The prior advance of the coastal regions onto a new economic movement mechanism track will bring pressure onto the hinterland and stimulate the hinterland provinces and regions to more quickly open up and reform and adopt flexible measures to enliven the economy. On the other hand, because of the existence of disparities, sometimes quite major disparities, between the coastal regions and the hinterland in terms of the degree of completeness of their markets, the degree of their opening to the outside world, the degree of freedom of prices, and the time sequence of their reforms, this will inevitably lead to some friction and contradictions. In particular, the coastal regions, in order to fully bring into play the role of the market mechanism, will link up with international markets, be the first to free prices, and implement regulation by market mechanism. This will affect nonexperimental areas, promote price increases in the hinterland, and affect the economic stability of the hinterland.

From this we can see that in reform, opening up, and the process of economic development in the coastal regions and the hinterland, there is both a unified, mutually-promoting aspect and a mutually contradictory and frictional aspect. How we are to rationally resolve the various contradictions produced by the differing structures and policies and differences in existing bases and their capacities to endure, and then to succeed in linking up the coastal markets and hinterland markets, is a strategic question related to the overall situation of reform and development. It is also an important component in implementing the strategies of pushing reform and opening up from the coastal regions to the hinterland regions and developing regional superiorities. The major avenue for resolving this problem lies in establishing transitional experimental regions in the provinces and regions neighboring the coastal comprehensive reform experimental regions and implementing appropriate flexible policies and elastic measures with dual-orientation linkages. 1) The reform, opening up, and development of the comprehensive reform experimental regions will have the most direct and powerful effect on and give the greatest pounding to neighboring provinces and regions. 2) The comprehensive reform experimental regions will also objectively require that the reform, opening up, and development of the neighboring provinces and regions be appropriately coordinated, with their own at a fixed gradient so that they have direct and strategic rear bases. Otherwise, the domestic economic environment necessary for the implementation of the external-orientation development strategies in the coastal regions will be artificially restricted. 3) The contradictions and friction between the coastal regions and the hinterland can be resolved through stepped

linkage and combination between the transitional region markets and the coastal region markets. This will bring into play the fluctuation-dampening role of the gradient differential and thus prevent fluctuations reaching and affecting the whole country. If we say that the markets of the coastal regions are the contact point between the international markets and domestic markets, then the transitional region markets will be the linkage point and place of juncture between the coastal markets and hinterland markets.

### 3. The Reform and Development of the Coastal Regions

The state's approval has already been gained for Hunan Province, which borders Guangdong, to become a place of juncture between the coast and the hinterland. Southern Hunan, which includes Chenzhou Prefecture, Lingling Prefecture, and Hengyang City, and which constitutes the forward region of this juncture region, has already been approved by the state as a transitional experimental region for the transfer of reforms and opening up to the hinterland.

How is the reform of the transitional regions to be carried out? I believe that we must proceed from the characteristic that these regions are linkage points between the coastal markets and hinterland markets and accelerate the fostering and development of a market system with links in the direction of both the coastal markets and the direction of the hinterland markets. It is also necessary to appropriately establish overall indirect macroeconomic regulation and control systems and deepen the reform of enterprise operational mechanisms, thereby linking up the deepening of reform and the expansion of opening up with the acceleration of development.

1. Gradient-linked price reforms should be instituted. In bringing into play the role of regulation by market mechanism and handling things in accordance with the law of value, the key lies in reforming the price management system and putting into order the formerly extremely irrational pricing relationships, including the irrational price ratio between domestic and foreign markets, industrial and agricultural products, and raw and semifinished materials and finished products. Price reforms in the transitional regions face the double task of dampening the fluctuations in a graded way and putting prices into order. In coastal reform and opening up experimental regions such as Guangdong Province, the scope of price freedom is much broader than in the hinterland, there is a much higher degree of linkage with international market prices, and there is a greater degree of price adjustment for the small number of commodities (such as grain) that have state-set prices. Thus, the size of price rises is also greater. The rise of prices in Guangdong will inevitably push up prices in the hinterland and will first produce a series of linked shocks in the transitional regions. In 1987, the overall level of prices throughout the country rose 7.3 percent over the previous year, while prices in Guangdong rose 11.7 percent

and those in Hunan rose 10.6 percent. The price rise in the two prefectures and one city of southern Hunan, however, was over 13 percent. This year prices have continued to rise in double-digit figures, and it is predicted that for the next few years, price rises here will be far higher than those for the country as a whole. The carrying out of appropriate price reforms is not only the primary task in transitional region reforms but something that relates to the sequential carrying out of price reforms throughout the whole country. The price reforms in the transitional region must on the one hand accord with the situation in the coastal experimental region of Guangdong and promote the speedy development of the commodity economy in the transitional region. On the other hand, they must also be linked with price reforms in the hinterland, so that the contradictions that the differences between the market mechanisms of and policies in the coastal regions and the hinterland regions have given rise to can be assuaged and the role of graduated fluctuation dampening can be brought into play. At the same time we should gradually put price relationships into order to complete the dual tasks of putting prices in order and achieving graduated fluctuation dampening. To this end, it will be necessary to appropriately relax price management authority in transitional provinces and regions. First, there should be appropriate relaxation in the control targets for provincial price indexes, and the inspection and approval powers of relevant departments of the State Council in terms of commodity prices and fee levels should be handed down to the provinces. Second, the two prefectures and one city of Chenzhou, Lingling, and Hengyang in the Southern Hunan transitional experimental region should be allowed to enjoy provincial-level price management powers so that their capacity to meet changes can be strengthened. In the putting of price relationships into order, we can adopt dual-orientation linkage and carry this out in several steps. The first step, in respect of major products which are subject to state management, will be that in the Southern Hunan transitional experimental region, we will implement purchase and sale procurement and allocation contracts for grain and oil and purchase procurement and allocation contracts for cured tobacco and coal. For that part which is being ordered, purchased, procured or allocated according to state plans, state fixed prices will be used, while there will be free pricing for the remainder. This will form a situation in which a small proportion is subject to procurement and allocation prices and the major proportion is subject to market prices. The second step will be that, with the condition of state approval, the range and proportion of directive-type procurement and allocation prices and fixed contract prices will be gradually reduced and the prices of agricultural products subject to directive-type procurement, allocation, and fixed contract prices will be gradually raised. For some important products, (such as grain), we can implement gradient prices. In regions bordering the coastal experimental regions, the price for state-ordered grain can be linked with market prices and, within the province, it will be possible to effect a gradual reduction in the difference

between these two prices. In this way, the degree of adjustment of prices will on the one hand be linked with the coastal region and on the other hand be linked with the hinterland, and thus rational flow will be maintained. The third step will be to have the majority of prices, excluding the directive-type procurement and allocation prices, gradually move towards a single market price which will be the same inside and outside the province and inside and outside the region, while the small number of state planned-management prices should be rationally readjusted in accordance with the demands of the law of value. This will achieve an initial sorting out of pricing relationships and will basically form a system in which prices are regulated by market mechanism under macroeconomic guidance.

2. We need to increase the degree of development of the market and speedily establish a market system which is linked in two directions. Doing well in resolving the issue of market linkage is a key task in reforming and opening up the transitional experimental regions. Seen in terms of the economic dealings between the two provinces of Guangdong and Hunan over the last few years, a situation has been basically formed whereby commodities and labor flow south and money flows north. The fastest growth in commodities flowing into Guangdong has been seen in agricultural products. Based only on statistics from the three transit points of Yizhang, Rucheng and Jianghua in Hunan, near the border with Guangdong, the figure of 1.95 million head of pigs that were sold to Guangdong in 1985 had increased to 3.2 million head by 1987, the 12,550 tons of tea provided to Guangdong for export in 1985 grew to 17,500 tons by 1987, and the annual amount of grain transferred to and flowing into Guangdong has reached 750 million kilograms. It is predicted that by the year 2000, Guangdong's gross output of grain will be 20 billion kilograms and that its total demand will be 26.25 billion kilograms, giving it a self-sufficiency ratio of 76.2 percent and a shortfall of 6.25 billion kilograms. The rapid growth in the agricultural product trade between the two provinces has powerfully promoted the development of the commodity economy and the readjustment of the industrial structure in the two provinces. However, it has also produced some contradictions and friction. This is especially seen in the fact that a lot of the agricultural products exchange is carried out through the small commodity production trade form characteristic of the initial stage of the commodity economy, which is completely spontaneous and diffused. Also, there are many intermediate links, and this is not conducive to the stable growth of production or benefit for the consumers. This certainly does not accord with the demands of socialized development of commodity production. Thus the establishment of a common market for the agricultural products of the two provinces, centered on grain, developing agricultural product futures markets, and raising the degree of organization of markets, are pressing tasks. This will provide Guangdong with a guarantee that it will have a stable goods source to meet its daily growing demand for

agricultural products and will also benefit the readjustment and switch of the agricultural structure to an external orientation. It will also benefit the stable growth of Hunan's agricultural production and the establishment of a new socialist commodity economy order.

Following the development of border trade between the two provinces, a common market on the border of the provinces is now being formed. The Hunan-Guangdong-Jiangxi Border Goods and Materials Coordination Region, constituted by Shaoguan in Guangdong, Chenzhou in Hunan, and Ganzhou in Jiangxi, which was established in 1986, has realized obvious achievements. In accordance with the objective need to link the coastal markets and the hinterland markets as well as the common development of the commodity economies of Hunan and Guangdong, it will be possible to further perfect and expand the common goods and materials market on the provincial border. First, the size of the region can be expanded to take in the whole of Hunan, North Guangdong, and Southern Jiangxi. Second, the scope of the region can be expanded so that it can utilize the policy advantages of Guangdong in terms of being open to the outside, the import and export of goods and materials can be jointly organized, the degree of openness of the border common market can be increased, and the development of a regional externally-oriented economy can be promoted. We can also use openness to promote development and establish common market goods and materials joint development group companies, in order to commonly develop regional mountain area resources.

The formation and development of a common market for commodities will also require the deepening of the financial system and reforms and the formation of a financial network that crosses regions. The financial reform of transitional provinces and regions requires that under the guidance of state financial macroeconomic planning, there be established a financial system that has many levels, many channels, and many forms of financing, which mainly relies on indirect regulation and control, and which is linked in both the direction of the coastal financial markets and the direction of the hinterland financial markets. To this end, Hunan Province's financial system and financing network should have Changsha as its center, with Hengyang and Yueyang as the northern and southern flanks. To the south it will be linked with Guangzhou and Guangdong, and to the North it will be linked with contact points in Wuhan and Hubei. Further, secondary financial centers will be established in the cities of Huaihua, Changde, and Shaoyang. This will form a cross-regional financial network that is linked to north and south and which is open to the east and west.

3. We must strengthen the development of the Southern Hunan transitional region. The reform and opening up of Guangdong has powerfully promoted, in the Southern Hunan region, the development of the commodity economy, the development of resources, the readjustment of

the industrial structure, and the change from a closed economy to an open economy. However, as the Southern Hunan economy has a weak base and the capacity of the local financial resources, cadres, and people to bear up to pressure is quite poor, there is a striking contradiction between "Guangdong prices and Hunan wages." The major avenue for resolving this problem is deepening reform and speeding up the process of opening up so as to promote the development of Southern Hunan. Southern Hunan also has its own advantages. The first is that there is great potential for the development of agriculture, and the second is that it is rich in mineral resources. If the development of the Southern Hunan transitional region is included in state plans, and at the same time the two provinces of Hunan and Guangdong break through their borders and jointly establish in Southern Hunan agricultural product and raw material bases for grain, pigs, cured tobacco, ramie, aquatic products, nonferrous metals, and construction materials, it will provide Guangdong with a group of direct strategic rear-area bases that can supply in a stable way the agricultural products and raw materials needed in the implementation of its external-orientation economic development strategy. It will also be beneficial to speeding the development and invigoration of Southern Hunan and beneficial to the linkage of the markets in the coastal experimental regions with those in the transitional experimental regions and strengthen the competitiveness of external orientation.

4. We should increase the degree to which the transitional regions are open to the outside. First, we should strengthen the economic and technological cooperation between the transitional region and Guangdong and other coastal regions. This is not only necessary in order to achieve better effects in making up what the other lacks and in speeding economic development, but also an effective avenue by which to alleviate contradictions and friction. We need to establish windows from the transitional region to the coastal special economic zones and establish Chinese-foreign joint enterprises. These enterprises should enjoy the same preferential treatment as local enterprises. These enterprises should also be shown preference in terms of taxation when importing raw and semi-finished materials for processing and subsequent export. Second, the examination and approval powers of the transitional region in terms of import and export operations and projects using foreign funds should be expanded. The state should hand down to the province the power to examine and approve large- and medium-size import and export operations and expand the province's examination and approval powers in terms of projects which are to be funded through direct investment by business people from outside. The province should give to the cities and localities of the Southern Hunan transitional region power to engage in import and export operations and implement separate contracts for the three base figures of foreign exchange earned through export, foreign exchange handed up, and export subsidies. Apart from what is required to be handed up to the central authorities in accordance with regulations,

the foreign exchange earned within the plans or outside the plans should all be retained by the prefectures and the city. In the transitional region, the city should establish and perfect organs related to foreign trade, such as a foreign economic relations and trade department, customs, a commodity inspection department, a branch of the Bank of China and so on. The power of inspection and approval of the "three processing industries and one compensatory trade"-type projects should be handed down to counties and cities and they should be allowed to enjoy the necessary preferential policies and be allowed to retain all the foreign exchange they earn. This will encourage and stimulate the development of an externally-oriented economy.

5. We should reform the financial and taxation systems so as to increase the financial vigor of the transitional regions. The economic base of the transitional regions is weak and they are also subject to the direct battering of the price increases in the coastal regions. Large price rises and a low capacity for endurance make up the most prominent and difficult to resolve contradiction in the transitional regions. In order to increase the financial strength of the "junctures" and transitional regions, the state should change the financial system in the transitional provinces and regions from the existing one, in which the total amounts are handed up, to one in which fixed amounts are handed up in accordance with graduated contracts. In respect of the cities and localities in the transitional region, the province should restore administrative office-level financial administrations in Chenzhou and Lingling and provide a certain amount of consideration to them in terms of revenue and expenditure.

6. We should reform the investment structure and expand the examination and approval authority for transitional region projects. In order to open up and enliven the transitional region economy, there is a need to institute guidance planning in terms of the scale of investment in fixed assets in the two prefectures and one city in Southern Hunan. Under conditions in which they themselves seek balance in terms of funds, energy, and raw and semi-finished materials, the provincial-level examination and approval powers for capital construction and technical transformation projects should be handed down to the prefectures and the city, with the requirement that projects be reported to the province for the record. For joint Chinese-foreign ventures, cooperative projects, solely foreign-funded projects and projects involving the drawing in of foreign technology, under conditions in which they seek their own balance in terms of foreign exchange, funds, and raw and semi-finished materials, the cities and localities in the transitional region should be given the right to exercise provincial-level examination and approval authority, provided that the projects are reported to the province for the record. Projects which involve drawing in from outside and linking up internally (including investment from abroad, investment from outside the region, and supporting funds from within the region) need not be included in the range of control for the scale of investment. The various

cities and localities in the transitional region should be able to establish investment companies and implement an investment funds system. The interest charged by the investment companies could fluctuate according to the industry. Also, the interest income could be exempted from business tax and income tax for a period of five years and the income thus derived could be used as the funds of the companies.

## PROVINCIAL

**Jiangxi Issues Circular on Monetary Stabilization**  
*OW1910091888 Nanchang JIANGXI RIBAO*  
*in Chinese 18 Sep 88 p 1*

[Text] On 17 September the Jiangxi Provincial People's Government issued a circular calling for all localities to control currency and withdraw more money from circulation in order to stabilize the monetary situation, ensure steady development of the economy, and promote smooth development of economic restructuring, especially price reform.

The circular points out: From January to August this year a relatively large amount of money was put into circulation in the province, and loans of various kinds also increased rapidly. If we fail to act now, the amount of money in circulation and the credit scale will greatly exceed the limits set for our province in the state control plan.

The circular requires all localities and departments to strengthen cash management and implement strict controls in putting money into circulation. Banks at various levels should seriously check on enterprises' and institutions' cash reserves, reset the ceilings for such cash, and supervise enterprises and institutions in promptly depositing above-ceiling cash in banks. Enterprises and institutions are strictly forbidden from depositing public funds in savings accounts to make money. Banks should keep an eye on those who withdraw a large amount of money from them. Economic contacts between units should be settled by transfer accounts, and goods and materials should be procured with notes or instruments. Banks must not grant loans to those who drive up prices through panic purchasing or who hoard materials, nor must the banks allow them to withdraw cash or transfer accounts. Any acts in violation of regulations on cash management should be stopped. While strengthening cash management, all banks should do a good job in allocating and transferring cash, keep a reasonable amount of cash in reserve, take effective security precautions, and ensure supplies of cash.

The circular also sets explicit requirements for withdrawing currency from circulation. Industrial departments should make vigorous efforts to increase the production of marketable goods and support commercial departments in effectively organizing market supplies. Commercial, supply and marketing, materials, and other

departments should vigorously organize the supply of goods, take an inventory of warehouses, overcome reluctance to sell goods, and make efforts to increase sales. Foreign trade departments should sell their overstocked goods on the domestic market in order to increase market supplies. Materials and forestry departments should arrange steel products and fir wood for the market in order to meet the needs of housing construction. In urban areas, vigorous efforts should be made to promote the commercialization of housing and to make a number of houses available for sale in order to speed up the withdrawal of currency from circulation. Currency should be withdrawn from circulation through various channels. Banks at various levels should vigorously attract savings deposits and value-insured savings deposits, using gold jewelry and high-grade goods as prizes for depositors. They should also do a good job in attracting deposits from government organizations, groups, enterprises, and institutions so as to steadily increase their deposits. Banks should make every possible effort to recall loans that are due or overdue. We must sell the capital construction bonds, treasure bonds, and national construction bonds the state has planned to sell in our province on schedule. No local bonds may be issued before all these state bonds are sold.

The circular stresses: It is necessary to implement the credit plans and the plan for the issuance of currency to the letter and to practice a system of full responsibility on the part of leading cadres. No locality or bank is allowed to exceed the ceiling for credit or the issuance of currency, and whoever exceeds the ceiling will be held responsible. The credit structure should be further readjusted. Banks must support the production and purchase of sideline and farm products and the circulation of funds needed by enterprises in their normal production and funds for construction projects included in the state plan. Banks should particularly ensure that there are funds for the production and purchase of grain, cotton, oil-bearing crops, and other major sideline and farm products. No more loans should be granted to such enterprises as small tobacco plants and cotton mills that turn out poor-quality products with poor economic results and compete with bigger enterprises for raw and semifinished materials. No loans should be issued to construction projects not included in the state plan, especially nonproductive projects such as office buildings, auditoriums, and guesthouses, which should be suspended. No unit or individual is allowed to force a bank to grant a loan or to prevent it from recalling a loan that becomes due or overdue.

The circular particularly stresses: Controlling currency, withdrawing more money from circulation, and stabilizing the monetary situation are major tasks in our current economic work. Governments at various levels should conscientiously carry out these tasks and strengthen their leadership, and all concerned departments should coordinate closely and make concerted efforts to accomplish these tasks.

## FINANCE, BANKING

### Reform of Treasury Bond Policies

40060017 Shanghai SHIJIE JINGJI DAobao in Chinese 5 Sep 88 p 10

[Article by Wang Zhi 3769 1807 of the People's Bank of China's Banking Research Institute: "Tentative Plans for Further Reform of Treasury Bonds"]

[Text] *Since the threat of price increases and inflation still exists throughout China, fixed interest rates on treasury bonds have little significance and must be reformed. 1. Fixed interest rates should be changed to floating interest rates, i.e., they should be calculated according to a weighted average of certain selected staple and nonstaple food prices; 2. Interest should be calculated according to the staff member and worker cost-of-living index or the national average price index as announced by the State Statistical Bureau. China's treasury bonds should become the most fluid, flexible, and popular of any bonds.*

The interest rates, repayment deadlines, and fluidity of China's 1988 treasury bonds were all much improved, but they still have to be apportioned by administrative methods and cannot compete with other bonds on the market. This shows that there is still room for further improvement. This article will discuss ways to improve them.

### Apportionment Is Not Rational

In Western countries, interest rates on treasury and other bonds are lower than those on bank savings, yet people compete to buy them on markets. The interest rate on China's 1988 treasury bonds was 10 percent, or equal to that on other bonds and far higher than that on regular bank savings. So why are they not popular on the market and why do they have to be sold by administrative methods? In order to understand this, we will have to review the history of China's treasury bond development. In order to make up a budget deficit, China began to sell 4 billion yuan of treasury bonds in 1981 to three groups: 1. They were sold mainly to "state-owned enterprises, collective enterprises, and departments in charge of enterprise work and local governments;" 2. "Organizations, groups, the army, institutions, and prosperous rural communes could subscribe for appropriate amounts of bonds"; 3. Individuals "could also subscribe for bonds." But from 1982 on, the three groups became one and all became major sales targets. Moreover, not only was it stipulated that "the duty to buy treasury bonds had to be fulfilled" (What about those who could not fulfill the duty and especially individuals?), but the amounts that units and individuals had to buy were clearly set and the share that individuals had to buy increased year after year.

Just as antibodies inevitably appear in the body when one kind of medicine is taken for a long time, a reverse psychology occurred among residents who were faced



with having to buy treasury bonds. When treasury bonds were first issued, although the deadline for repayment of capital with interest was quite long and they could not be discounted, patriotic people did all they could to buy them. But as they were issued year after year and apportionment was stipulated according to a percentage of individual wages, many people became fed up with them. Although treasury bonds can now be discounted, the terms are still too strict, it can be done only in a few big cities, and it is very uncommon. Although the current interest rate is 10 percent, it is simple and not compound interest. Although the repayment deadline has been shortened to 3 years, who knows how much staple or nonstaple food today's 100 yuan will still be able to buy 3 years from now!

### Reform Plans

Treasury bonds are issued routinely in foreign countries, mainly in line with treasury turnover needs. From the angle of a yearly financial budget of revenue and expenditure, although a year-end balance of revenue and expenditure can be realized, it is not necessarily always realized by collecting first and paying later, but is often realized by paying first and collecting later. Treasury bonds are issued to take care of temporary turnover needs and have short deadlines for repayment of capital with interest and high fluidity.

Treasury bonds should be issued only to meet national treasury turnover needs and should be sold only to residents. Repayment deadlines should not exceed 1 fiscal year and bonds should be issued for 6 months or even shorter periods of time. Subscription should be completely free without apportionment and banks should guarantee to buy those that cannot be sold. Of course, capital with interest should be repaid promptly according to the stipulated deadlines for treasury bonds issued by public finance that are bought by either residents or banks. As to interest rates, since the situation of demand exceeding supply has not been basically reversed and the threat of price increases and inflation still exists throughout China, fixed interest rates on treasury bonds have little significance and must be reformed. There are two reform plans: 1. Fixed interest rates should be changed to floating interest rates. The calculation method for floating interest rates should use the 1950's calculation method for reference, i.e., they should be calculated according to a weighted average of certain selected staple and nonstaple food prices. The difference is that they do not have to be calculated daily, but only on a stipulated date. For instance, the stipulated cutoff date for buying 1988 treasury bonds is 1 August 1988 and repayment of capital with interest begins on 1 September 1989. The interest is calculated according to the difference in selected staple and nonstaple food prices between 1 August 1988 and 1 September 1989. This is only a way to guarantee capital, i.e., it ensures that those who buy treasury bonds do not suffer losses. Although this is the very least that should be expected from a debtor as far as credit goes and even though it is so simple, if it could be accomplished now, it could ensure that treasury bonds would be more popular than any other bonds and people

would flock to buy them; 2. Interest should be calculated according to the staff member and worker cost of living index or the national average price index as announced by the State Statistical Bureau. Although this method certainly could not ensure that residents who buy treasury bonds would not suffer losses due to price increases (since the currency that residents buy treasury bonds with is squeezed out mainly from consumer funds and it is precisely the prices of the means of subsistence, i.e., staple and nonstaple food, that have increased considerably in the past few years, it might be irrational to average them with the means of production), it would be more popular than the fixed interest rates on other bonds.

China's treasury bonds should become the most fluid, flexible, and popular of any bonds. This means that they will have to be able to be discounted at any time. But the aim of discounting is to reduce discounting and certainly not to encourage people to buy treasury bonds on the one hand and discount them on the other. Rather, it is to ensure them that they can cash in their bonds at any time. Thus, the deadlines for repayment of capital with interest on treasury bonds should not be too long. From the perspective of macrocontrol of the money supply, bonds that are issued with long repayment deadlines and permitted discounting are not as good as those that are issued with short repayment deadlines and permitted discounting, which will actually seldom have to be discounted. We can use 1988 treasury bonds that have a 3-year repayment deadline and permitted discounting as an example. The analysis is as follows: Step 1. A resident buys a treasury bond with 100 yuan in cash, which increases public finance by 100 yuan. This does not change the money supply because the increase and decrease are equal; Step 2. Public finance plans long-range projects with the 100 yuan which has to be repaid only after 3 years. But the resident discounts the treasury bond at a bank a year later, turns his valuable negotiable security into cash, and increases the money supply on the market to 200 yuan; Step 3. If the special bank that discounted the bond rediscounts it at a central bank, the money supply has increased to 300 yuan. This naturally makes macrocontrol of the money supply more difficult and is likely to cause price fluctuations. But if the deadline for repayment of capital with interest for the treasury bond had been set at 1 year, it would not have been necessary to discount it a year later and thus, the money supply on the market would not have increased. It can be seen that long deadlines for repayment of capital with interest on treasury bonds are not necessarily favorable.

### Impact of Interest Rates on Economy

40060044 Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 9, 4 Sep 88 pp 13-14, 18

[Article by Xu Meizheng 6079 5019 1767: "The Regulatory Role of Interest Rates Should Be Brought Into Full Play"]

[Text] It is acknowledged by everyone that interest rates are an important means of regulating the economy. However, there are differing views with regard to



whether interest rates should be adjusted and reformed at the present stage, thereby effectively bringing their regulatory role into play. I would like to discuss some views regarding this question. First, should interest rates be maintained at a positive value? Internationally, views and opinions differ with respect to what kind of tax rate policy to implement. Some believe that at the time of economic takeoff, and especially with regard to developing countries, a policy of low interest rates should be implemented in order to promote economic growth, while others disagree with this view. However, whatever the view, they all have one point in common—all believe that interest rates should be positive values; that is to say, the interest rate level should not be allowed to drop below the inflation rate. This point is proven by the practice of some developing countries. In these countries, because interest rates are kept down artificially, they are negative values, and these interest rates have stimulated demand, leading to inflation, and thereby adversely affecting economic growth and stability. China's interest rate is now a negative value; particularly this year, commodity prices rose rapidly on the one hand, while the interest rate remained unchanged, so that its negative value has grown steadily, causing people in some cities to withdraw their bank savings and rush to purchase commodities; some enterprises have rushed to purchase raw materials, and hoarded commodities and materials for speculation. These phenomena show that negative interest rates have an adverse effect on the economy; if these are allowed to develop unchecked, it will not only affect commodity prices and economic stability, it could also adversely affect social stability. Therefore, adjusting interest rates and transforming negative interest rates is an issue which urgently awaits resolution.

Second, how shall interest rate elasticity be regarded? That is to say, can China's economy or currency demand respond flexibly to interest rate fluctuations? Currency demand includes both consumer demand and investment demand (i.e., productive currency demand). It is generally agreed that there is already a considerable amount of interest rate elasticity with regard to consumer demand; naturally, this refers to regulating the proportion between consumption and savings, while changes in personal income, on which consumer demand is based, must be regulated through income policy. Using interest rates to regulate the proportion between savings and consumption, and thereby regulating consumer demand, has been demonstrated through several years of practice. Since 1979, we have raised the interest rate on savings deposits five times, and this has played an active role in expanding savings, controlling consumption, and regulating demand.

However, there are differing opinions regarding whether there is interest rate elasticity with regard to investment demand. Some believe that, at the present stage, China's investment demand still lacks investment rate elasticity, or has a very low level of elasticity. I believe that we should analyze, specifically with regard to industries and

enterprises which implement command-style planning management, whether their investment demand really lacks interest rate elasticity. This is because, although they have the profit motive, they lack a risk control mechanism. However, for the majority of enterprises, this is not the case. After several years of reform, they not only have a profit mechanism, they also have risk control mechanisms to varying degrees. Township enterprises, some collective enterprises, and state-owned enterprises with relatively good enterprise system reform have risk control mechanisms, although naturally to varying degrees. The investment demand of these enterprises has varying degrees of interest rate elasticity. Another view holds that since China's enterprise operation and management is poor, while its potential is great, if interest rates are raised, enterprises can raise their profit rate through tapping their latent capacity, thereby offsetting the interest rate increase and reduced earnings, with the result that their interest rate elasticity is not at all great. In just such circumstances, an initial interest rate hike can spur the tapping of enterprise potential and increase economic returns, demonstrating the necessity of raising interest rates. If interest rates are then raised further, some enterprises will be unable to bear the rate hike, and will not dare borrow or lend money, and the role of interest rates in restraining investment demand is brought into play; that is to say, by raising the interest rate to a certain level, interest rate elasticity can be increased. Generally speaking, most of China's enterprises have elasticity of interest rates with respect to investment demand. However, the degree of elasticity varies among different industries and enterprises. Therefore, interest rates should be adjusted, bringing into play the role of interest rates in regulating investment demand. Naturally, at the present stage, it is not enough to rely solely on interest rates to regulate investment demand; it is necessary to control the growth rate of loans at the same time. That is to say, supply-side currency regulation should be combined with demand-side currency regulation.

There are many causes of China's current excessively large investment demand, but low interest rates are one important factor; particularly this year, the negative value of investment rates has increased more and more, further stimulating investment demand. Enterprises have not only borrowed money to implement production, technical renovation, and capital construction; they have also borrowed money to purchase and hoard raw materials and products for speculation, thereby expanding the money supply, and increasing the disparity between gross demand and gross supply; thus, interest rates are playing a role contrary to regulation.

In sum, in the present stage, China's economy has elasticity of interest rates, although the degree of elasticity differs among different areas, industries, and enterprises. Therefore, interest rates should be used to regulate demand. We should raise the savings interest rate, and stabilize and increase savings deposits, in order to control consumer demand; and we should raise loan

interest rates, while at the same time raising enterprise savings interest rates, making them consistent with savings deposit interest rates, combined with controlling credit growth in order to check excessive investment demand. This is currently an important task of macro-regulation.

Third, analysis should be implemented specifically with regard to whether raising interest rates is liable to lead to cost-push inflation.

Under inflationary conditions, if interest rates are maintained at their original level, the interest expenditure portion of the cost will show a relative decline, while if interest rates rise at the rate of inflation, even though the interest portion of the cost shows a nominal increase, there is no actual increase; under these circumstances, commodity price hikes are caused by inflation, and are not set off by raising interest rates.

In the course of price reform, when interest rates are raised, industries and enterprises whose prices have risen due to the lifting of commodity price controls can make up for their increased interest expenditures due to the raising of interest rates by raising prices, while for enterprises and industries whose costs rise due to a rise in raw materials prices and an increase in interest expenditure, when there is a lack of competition externally and a lack of a high-return mechanism internally, increased interest expenditures due to rising interest rates can possibly be shifted to prices.

Viewed from another perspective, however, raising interest rates controls consumer demand and investment demand, thus reducing the disparity between gross demand and gross supply, which is advantageous toward controlling the rise of the gross commodity price level.

Clearly, it cannot be sweepingly asserted that raising interest rates will inevitably cause cost-push commodity price hikes; still less can the amount of increase of interest expenditure resulting from raising interest rates be calculated simply as the amount of commodity price rise.

However, in the course of price reform, a complete set of reforms must be implemented, and the adjustment of interest rates should be seriously studied; the interest rate level should be appropriate, and the pace of implementation should be coordinated with reform in other areas, so that interest rate adjustment will be advantageous to controlling demand, and controlling the rise of commodity prices, rather than spurring commodity price hikes.

Fourth, how shall we regard the redistribution of profits caused by the adjustment of interest rates? Some believe that raising the savings interest rate, thereby increasing the interest income of residents, is inappropriate at the present time, when individual income is growing too rapidly, and that it has also expanded consumer demand.

What is proper is to transform negative interest rates, prevent the depreciation of savings deposits, and allow depositors to receive actual interest income. As to the current overly rapid growth of individual income, this should be regulated through such policies as wage policy and individual income tax policy.

Is raising the savings interest rate and increasing residents' interest income liable to expand consumer demand? Viewed from one perspective, an increase in interest and income may expand consumer demand, but viewed from another perspective, raising interest rates, allowing savings deposits to maintain their value, and enabling residents to receive actual interest income may spur people to increase their savings, rather than withdraw savings and rush to purchase commodities. Thus, raising savings interest rates is only likely to control consumer demand, and not to increase it.

Some people are concerned that raising interest rates, causing enterprises to increase their interest expenditure, is liable to increase the burden of enterprises, and adversely affect enterprises' vitality. Under conditions of negative rates, among the profits obtained enterprise debt operations, a portion is actually transferred from savings depreciation, and this portion of profits is by no means returns from enterprise operations. Shifting interest rates from negative to positive values and increasing interest expenditure by enterprises is actually returning the savings depreciation portion from enterprises to depositors, and should not be called "increasing the burden of enterprises."

Will adjusting interest rates adversely affect enterprise vitality? Under conditions of negative interest rates, as long as enterprises borrow money, they do not need to improve their operation to obtain profits. Some enterprises even borrow money and hoard commodities for speculation, reselling at a profit. Therefore, negative interest rates are not detrimental to improvement of enterprise operation and returns, and are therefore also detrimental to really bringing enterprise vitality into play. On the contrary, only the adjustment of interest rates can spur enterprises to improve their operation and returns, and economize on the use of funds. Therefore, it is uncalled for to worry that adjusting interest rates is liable to adversely affect enterprise vitality.

Another question over which people are concerned is whether raising interest rates is liable to adversely affect fiscal revenue. This must be analyzed specifically. Adjustment of interest rates may produce varying effects on enterprises. Some enterprises may absorb the increased interest expenditures by improving their operation and returns, while other enterprises, because of a lack of external competition and an imperfect internal mechanism, may shift the increased interest expenditure outward by raising prices; under these conditions, raising interest rates may promote a rise in commodity prices, but it will not reduce profit revenue, and thus will not

adversely affect fiscal revenue, either. Still other enterprises cannot improve their returns and absorb increased interest expenditure, nor can they shift the expenditures outward by raising prices, and therefore suffer reduced profits, or even losses, thereby adversely affecting their fiscal revenue. In addition, from the standpoint of the banking system, raising interest rates may on the one hand increase interest expenditure, while on the other hand it may increase interest income, but the increased interest income may exceed the interest expenditure, because banks also have their own credit capital, and so the banking system's profits increase, while the portion of public finance turned over to the state also shows a corresponding increase. It is evident from this that raising interest rates by no means has an inevitably adverse effect on fiscal revenue. If adjustment of interest rates is carried out amid a complete set of various reforms, particularly reform of enterprise mechanism, and the interest rate level is appropriate, and does not overly restrain demand, resulting in adverse effects on the stable growth of the economy, then, at the same time that the economy continues stable growth and enterprises' economic returns constantly rise, fiscal revenue can increase continuously.

To sum up, adjusting interest rates and transforming negative interest rates is a problem demanding prompt solution. Interest rate adjustment is needed, whether to deepen economic system reform and improve the indirect adjustment and control system, in order to regulate the economy and ensure stable economic growth, or to coordinate commodity price reform, use interest rates to regulate gross demand, and ensure the smooth implementation of price reform. To this end, it is first necessary to unify understanding, and at the same time to seriously study and carefully plan interest rate reform, including such topics as the proper level of interest rate, adjustment measures, and how to coordinate with reform in other areas, so that interest rate reform can be smoothly implemented, and achieves the desired results.

## MINERAL RESOURCES

### Impact of World Economy on Country's Mineral Supply

40060048 Beijing ZHONGGUO DIZHI [CHINA GEOLOGY] in Chinese No 9, 13 Sep 88 pp 1-4

[Article by Zhang Hongren 1728 1347 0088: "China's Mineral Supply in the 1990's and the World Economy"]

[Text] The 1990's will be a vital period in China's economic development. Our goal is to increase the gross national output value 100 percent over that at the beginning of the 1990's and take the lives of the people to a fairly well-off level by the end of the century. Mineral resources are an important material base for economic development. Looking ahead to mineral supplies in the 1990's is of actual significance.

For historical reasons, China has long pursued a policy of self-sufficiency in mineral resources. In order to guarantee the requirements for economic construction, the State has carried out large scale geologic prospecting work and has achieved successes that have gotten worldwide attention. A series of important minerals with proven deposits rank in the forefront worldwide. Formidable energy resources and raw material industries have been built relying primarily on China's resources. In 1987 China produced 920 million tons of coal. This led the world and was one-fifth of the total world production of coal. China's crude oil production was 134 million tons which was fifth in the world. Steel production reached 56.02 million tons which was fourth in the world and cement production reached 180 million tons which led the world.

Despite all of this, we are still faced with many problems. To sum them up, as General Secretary Zhao Ziyang did last October in his report, "We've got many people; compared to the people, resources are insufficient; and we have a serious shortage of capital." These few words provide a sketch of the challenge facing our mineral supplies in the 1990's and even for a fairly long time after.

In 1978 a new page began in China's history. The policy of opening to the outside world provided a new line of thinking so as to resolve the issue of our mineral supplies. The self-enclosed, non-dealing aspects of our mineral supplies had already begun to show marked change. In recent years, the import and export value of various minerals and metals has occupied a noticeable proportion of China's total import and export trade value. (See Tables 1 and 2) Using 1986 as an example, the total value of imports and exports reached \$73.8 billion. Of this, exports accounted for \$30.9 billion, and imports accounted for \$42.9 billion. Based on incomplete statistics, the exports of minerals and metal materials were nearly \$4.2 billion, and the imports of the same were \$7.8 billion.

Table 1: China's Mineral Exports—1986 (Customs Statistics)

	Quantity (1000 tons)	Amount (million U.S. dollars)
Mineral Fuels:		
Coal	9820	400.47
Coke, Semi-Coke	460	54.51
Crude Oil	28500	2391.55
Refined Oil	5460	758.90
Paraffin Wax	101	42.02
Petroleum Coke	141	11.00
Metals:		
Steel Products	227	66.74
Steel Wire	87	34.18
Cast Iron Pipe	26	6.67
Copper Products	9	15.46
Aluminum Ore	378	21.61
Aluminum Products	6	10.24

**Table 1: China's Mineral Exports—1986 (Customs Statistics)**

	Quantity (1000 tons)	Amount (million U.S. dollars)
Zinc and Zinc Alloys	57	42.80
Tin and Tin Alloys	74	42.41
Tungsten Ore	236	99.29
Tungsten	3.65	2.77
Tungsten Products and Goods	—	0.84
Antimony	21.57	53.95
Non-Metals:		
Cement	192	7.96
Fluorite	700	58.63
Barite	531	16.24
Sodium Carbonate	51	12.68
Talcum	582	36.64

### Long-Range Estimates

By the end of last year, China's population was 1.08 billion, 21.6 percent of the world population (based on an estimate of five billion). But our nation covers an area of 9.6 million square kilometers, 7.3 percent of the earth's land surface of 180 million square kilometers. China is three times as densely populated as the rest of the world. Although there are various estimates on the long term prospects for China's minerals, even the most optimistic ones recognize that China's mineral stores aren't three times greater than the world's average value. It is generally recognized that China's mineral stores are roughly equal to the average value of the other regions of the world. Thus, looking at the situation as a whole, Chinese have roughly one-third of the average value of mineral resources in the world. This is the serious challenge presented us due to the fact that "we've got many people."

**Table 2 China's Mineral Imports—1986 (Customs Statistics)**

	Quantity (1000 tons)	Amount (million \$)
Mineral Fuels:		
Coal	2470	86.84
Metals:		
Iron and Steel:		
Iron Ore	13720	337.74
Steel Products	18370	5837.72
Steel Wire	103	59.10
Chromite	385	49.19
Copper and Copper Alloys	171	245.05
Aluminum and Aluminum Alloys	266	330.70
Zinc and Zinc Alloys	117	91.18
Non-Metals:		
Industrial Cobalt (1000 carat)	760	8.16
Chemical Fertilizer	5100	712.05

Fortunately this problem does not pose a current threat. That is because presently our nation's productive force is far lower than the world average. The gross national output value of the average Chinese is one-eighth of the

world average. Carrying through with the comparison, even if the total value of national output increases 200 percent, generally speaking mineral resources should be sufficient to meet production needs. Thus, problems similar to this won't appear until the next century.

However, due to a world-wide technological revolution, a series of new technological items have been developed which economize on energy resources and raw materials. This opportunity may ameliorate our future problems regarding relative insufficiency of resources. For example, the elasticity coefficient required by steel can be lowered due to the appearance of new materials and substitute products, and greater versatility of machinery and equipment. The industrialization of superconductor materials will greatly reduce the demand for copper. Granted, it is still early to talk about these things. But, developments in the last ten-odd years are really heartening.

### Forecast of Demand in the 1990's

There have been differing forecasts made for China's mineral demand in the year 2000. The results of a forecast made in 1982 by the China Science and Technology Information Research Institute are listed in Table 3.

**Table 3 Forecast of China's Mineral Demand  
in the Year 2000 by the China Science and Technology  
Information Research Institute**

Mineral	Demand (million tons)
Raw Coal	1200
Crude Oil	165
Steel	95
Iron Ore	255
Non-Ferrous Metal	4

In his government work report delivered this March to the Seventh Plenum of the National People's Congress, Premier Li Peng talked about the plan for increasing the primary product output during the period 1988-1992 like 30-million-ton yearly increases in coal production and a 150-million-ton increase in production capability in five years, 2.5-million-ton yearly increases in steel production and a 12.5-million-ton increase in production capability in the five years and a 15-million-ton increase in oil over the five years. Based on increased amounts, we can calculate the annual rates of increase, and using the annual rates of increase we can project the production volume up to the year 2000. The results illustrate that the production volume forecast for the year 2000 is close to the demand quantity forecast by the Science and Technology Information Office of the Chinese Academy of Science. Moreover, the forecast of production volume exceeds the forecast for demand. This illustrates that on the one hand the development from 1982 to the present indicates that the actual speed of production development is higher than originally anticipated, and on the other hand this illustrates that the corresponding supply of minerals can be guaranteed.

### Mineral Supply Strategy

When discussing the mineral supply strategy of China for the 1990's, consideration should be given to the following important circumstances:

1. As we pursue the policy of opening to the outside world, the starting point for consideration of the issue has shifted from the maximum restriction of being self-sufficient to more closely connecting China's mineral supply with the world market. Early in the 1980's Zhao Ziyang pointed out that China's pursuit of industrial development doesn't necessarily mean that everything must be done from scratch; we should consider simultaneously using domestic and foreign resources. Recently he further pointed out that to the greatest extent possible we should adopt the guiding policy of putting both ends abroad and making large scale imports and exports. That is, we should import foreign raw materials, process them domestically, and then sell them on the international market. The development of the Shanghai Baoshan Steel Company is an example of using foreign resources. It is testimony to the fact that it is more worthwhile to import iron ore than to import steel. In 1985, while the price of copper was low, China imported a fairly large quantity of copper and this too proved to be successful.

2. The construction period for a mine is long and large mines generally need 10 years after prospecting to go into production. Domestic mineral supplies in the 1990's will largely come from mineral deposits that have already been discovered. Looking at the amounts of mineral deposits already proven, the mineral demands of production in the 1990's can be fully met for most minerals. But certain minerals, like chromite, sylvite, and diamond have proven resources which are seriously insufficient and for these we will certainly have to rely on imports.

3. Setting out from the reality that "we have many people, and a serious shortage of capital," a fairly beneficial strategy of economic development would be to step up development of labor-intensive industry and cut back on development on capital-intensive industry. As it turns out, the mining industry is both labor-intensive and capital-intensive, and the period for return on capital is quite long. This condition severely restricts development of the mining industry. If we add on top of this the indispensability of the infrastructure construction for development of the mining industry such as railroads, ports, electric power, etc., the capital-intensive characteristic becomes more pronounced. Mineral prices which are artificially low due to historical reasons is a further restriction on the vitality of the mining industry.

Certain foreign writers feel that the reason China imports iron ore placer is because the quality of China's iron ore deposits is poor, the grade is low, or the composition is too complex and the separation and smelting costs are high. Actually this isn't the reason at

all. With technological advances and a cheap labor force, China's domestic production could come up with an iron concentrate comparable to the imported high-grade ore and production costs would be far lower than importing iron ore placer C.I.F. Even with the fairly complex circuit of separating out vanadium, ilmenite, and magnetite, the production of iron concentrate from western Sichuan is profitable. One important reason for the insufficiency of domestic iron ore is that the problems surrounding the necessary capital for mine and assembly infrastructure are difficult to resolve.

Because of the aforementioned reasons, in the first and middle parts of the 1990's development of the mining industry will lag behind the processing industry. It is possible that the production of certain minerals may not be able to satisfy demand even though the domestic resources are there.

Highlights of China's mineral imports and exports in recent years are 80 percent of total imports have been steel and iron ore placer and 90 percent of total exports have been mineral fuels. What changes are forecast for this pattern in the 1990's?

1. There will be increased imports of certain minerals where domestic resources are markedly insufficient. The demand for chromite will continue to increase as steel production rises. Correspondingly, chromite imports will inevitably increase. Other minerals like sylvite and diamond will face similar situations.

2. The supply of most minerals will still come primarily from domestic sources. But because of lagging mining construction, iron, steel, and other fundamental minerals and metals will still be imported in fair amounts. Although the amount of imports will be only a fraction of the total domestic production, the volume will be large and this will prove decisive on the scales of the international market.

3. Although oil is currently an export, because of the slumping price of oil on the international market and because of the potentially enormous domestic demand (it is not difficult to see that oil occupies a very small portion of China's overall energy resource make-up), large quantity exports of oil will in the future become less and less possible. As exports of manufactured products develop, oil exports will gradually reduce, and we may even shift to importing oil.

4. Coal is China's dominant mineral. Coal production is primarily restricted by transport capacity. As transport conditions improve, given international market demand, coal could come to replace oil as our primary mineral export.

**Table 4. Extended Forecast on Production Amounts in the Year 2000 Based on Premier Li Peng's Government Work Report Delivered to the Seventh Plenum of the National People's Congress**

Unit: Millions of tons

1987 Production	Total Increase in Production Capacity from 1988-1992	Annual Rate of Increase %	Extended Production Up to the Year 2000
Coal 920	150	3.067	1362.50
Crude Oil 134	15	2.145	176.57
Steel 56.02	12.5	4.111	94.57
Iron Ore (Note 1)			281.36
Non-Ferrous Metals (Note 2)			4.73

Note 1: Calculated using a 0.85 ratio of pig iron to steel, and a 3.5 ratio of iron ore to pig iron.

Note 2: Calculated using a 5:100 ratio of non-ferrous metal to steel.

5. As export amounts of fundamental minerals increased, China's traditionally strong minerals like tungsten, tin, antimony and mercury gradually lost importance. Currently they make up less than 5 percent of the total mineral exports. In order to fully utilize our abundant labor force, we must carry out extensive processing of these minerals or put them into manufactured products to the greatest extent possible to make exports.

6. Our nation has an abundance of non-metal mineral resources, and these kinds of mines and their processing industry require little capital for construction. The construction period is short and large amounts of labor force can be absorbed. This is an export industry that suits our present situation and that merits sped up development in the future.

7. If the world mineral market continues in its bleak state for long, China's smelting enterprises may discover that it's profitable to go abroad to invest in mine construction. Because mine construction takes a long time, the mineral industry is quite risky and China is short on capital, large scale investment activity in the early 1990's will be impossible. What is a greater possibility is making selective investments in foreign mine construction where the amount invested is small, results can be seen quickly, and there is an urgent domestic demand for this kind of mine. Undoubtedly this trend will gradually grow stronger.

## Conclusion

The effects of a world revolution in new technology are causing profound changes in the industrial structure of developed nations. It is estimated that the world mining industry will still be in a slump in the 1990's. But the 1990's are a period when China will have a sudden increase in demand for minerals. Because of the results of continuing to implement the policy of opening to the

outside world, China's dealings with the world in the minerals market will see a large increase. Although most minerals will be supplied domestically in the future, because of the huge overall scope of China's production, a small proportion of imports and exports will have a major effect on the world market.

## Footnote

1. A speech delivered at the international seminar on "China and the World in the 1990's" organized by the State Council Development Center.

## Northwest Nonferrous Metals Industry Steps Up Development

Beijing RENMIN RIBAO in Chinese 21 Sep 88 p 2

[Text] The Northwest region which is rich in nonferrous metals resources has adopted a multi-channel method to raise capital and has carried out opened operations. Like a tiger that has grown wings, the nonferrous metals industry in this region has entered into a new period of development.

According to statistics, increases in nonferrous metals production in the northwest region has averaged 15 percent annually in the past eight years. At present there are more than 70 nonferrous enterprises in the region, 30 of which are large- and medium-sized key enterprises. Their combined annual productivity has more than doubled that of eight years ago. And annually their volume and value of production, tax and profit amount to one-eighth of the corresponding figures for the entire country. The region has established a comprehensive nonferrous metals industrial system of geological prospecting, design, construction, mining, and ore dressing and smelting.

Preliminary prospecting shows that there are about 30 kinds of nonferrous metal resources in the northwest. Ten of them are among the best in the nation. In the past because of the effects of the natural economy on this area, which has rich resources but a weak industrial foundation, it was afraid it might lose its resources through "exploitation" by others. It carried out a number of artificial restrictions to prevent others from sharing their "wealth." The result was that such restrictions also held back the exploitation of this region's resources. Over the past few years the further development of reform and opening up and the broad acceptance by the people of the concept of a commodity economy have made the provinces of the northwest region realize that in today's commodity economy they can no longer seal off their resources and wait for others to help. Therefore, the five provinces of the northwest region have successively drafted various preferential policies to attract outside capital and cooperate with other provinces and cities so as to speed up the exploitation of their

resources. Their concrete measures include the following. The first is compensation trade. Outside capital is used to carry out mining and smelting. Proceeds from the sale of favorably priced products are used to repay loans by installments within a certain number of years. The second is joint ventures. The enterprises will distribute their products and profits proportionally according to the capital shares of the partners. The third is integrated mining. Benefits are shared by all parties. One party gets the products, the other gets the profits.

## INDUSTRY

### Jilin Report on Development of Petrochemical Industry

SK2510085788 Changchun JILIN RIBAO in Chinese  
22 Sep 88 p 1

[Part two of report made by the Jilin Provincial Statistical Bureau: "The Petrochemical Industry Is Advancing With Giant Strides"]

[Excerpts] Our province has made increasingly greater contributions to the state by accelerating the development of its petrochemical industry over the past 10 years of reform. The petrochemical industry has become a pillar industry and occupies a decisive position in our province's economy. The province's total petrochemical industrial output value increased from 2.103 billion yuan in 1978 to 3.668 billion yuan in 1987, an increase of 76.7 percent and an annual average increase of 6.5 percent. The output value realized by the petrochemical industry in 1987 accounted for 12.7 percent of the province's total industrial output value. The profits and taxes realized by this industry rose from 532 million yuan in 1978 to 1.097 billion yuan. The profits and taxes realized by the petrochemical industry over the past 10 years reached 7.02 billion yuan, accounting for 23.9 percent of the total profits and taxes realized by the province's industrial front and accounting for 39.3 percent of the province's revenues. [passage omitted]

By ceaselessly deepening reform, our province's petrochemical industry has shifted from a closed to an open type and has made greater progress in technological imports and product exports. Over the past 10 years, 25 advanced technologies and key appliances were imported from foreign countries. Of these, 14 went into operation. This has helped score good results in upgrading the quality of products and reducing consumption. The petrochemical industry has ceaselessly enhanced its capacity to create foreign exchange by exporting products. About 50 varieties of products were sold to foreign countries and Hong Kong and Macao areas. A total of \$177 million in foreign exchange was earned.

By expanding capital construction and developing technological transformation, our province's petroleum and chemical industries have ceaselessly expanded their production capacity. The enterprises in these two fields have ceaselessly gained momentum. From 1978 to 1986, a set

of production lines with an annual capacity of 115,000 tons of ethylene and 80,000 tons of oil-filled butylbenzene rubber were built in succession. As of the end of 1986, 537 technological transformation items were completed. So far, our province has 17 petrochemical industrial trades, such as crude oil mining, crude oil processing, chemical fertilizer, and agricultural chemical trades. A petrochemical industrial structure has begun to take shape in which large, medium, and small enterprises are linked with each other, and a complete array of trades are included and reasonably distributed. A total of 400 petrochemical products can be produced. Over the past 10 years, the output of crude oil increased by 54.7 percent, the volume of processed crude oil increased by three times, the output of caustic soda increased by 52.1 percent, that of tires increased by 1.71 times, and the production of synthetic ethanol and synthetic rubber was developed from nothing and then ceaselessly increased. All this has made contributions to promoting the development of the province's national economy.

## FOREIGN TRADE, INVESTMENT

### Progress in Hebei's Foreign Trade During First 10 Years of Reform

40060054b Beijing GUOJI SHANGBAO in Chinese  
13 Sep 88 p 1

Article by Chen Linuo 7115 7787 1226: "Hebei's Foreign Trade Develops Rapidly During First 10 Years of Reform; Exports Advance Greatly in One Year; Every Year Brings New Breakthroughs"]

[Text] Hebei's foreign trade has shown rapid development during the first 10 years of reform. Through the use of foreign capital, imported technology, labor cooperation, and contracted foreign engineering, the province has had remarkable success, going from being a have-not to a have and from minor to major status. Its volume of exports has increased from \$258.93 million in 1978 to \$1,484.75 million in 1987, putting it in seventh place nationally. Its exports of locally-produced commodities have increased from \$229.87 million in 1978 to \$1,074.97 million, which ranks eighth nationally. The average rate of increase was 21.2 percent annually, 16.4 percent higher than the national rate of increase for the same period. This year, for the period of January through July, the volume of exports was \$648.96 million, fulfilling 74.82 percent of the yearly plan, an all-time record for that time span.

Ten years ago Hebei was only producing 17 export commodities and 50 varieties. In 1987, Hebei's export commodities had increased to more than 850, forming the core of a large quantity of products. Also in 1987, there were 45 different exported products which took in more than \$3 million, accounting for 78.7 percent of the province's total income from exports. There were 19 products which had an export volume of more than \$10

million. Chief among these were cotton, cotton cloth, T/C cloth, cotton yarn, carpets, and ceramics. These constituted 67.4 percent of the province's total volume of exports.

In order to expand exports and increase export reserves, for the last 10 years Hebei has been building a production base for strengthening export commodities which accords with the particular economic characteristics of the province. At present, they have established Zhangjiakou, Tangshan, and Shijiazhuang as comprehensive production bases for export commodities, with Qinhuangdao as a base for farm produce and 19 single commodity production bases such as Cangzhou, Qing County, Tang County, Wei County, Hejian, Daming, Wuan, etc. In addition, there are six bases for producing sideline agricultural products which have been brought into the national system for producing sideline agricultural products for export. The exported goods produced by these bases make up 25.5 percent of Hebei's total exports, enlarging the province's commodities for export. Exported goods' proportion of Hebei's total industrial and agricultural output value increased from 2.53 percent in 1978 to 5.5 percent in 1987. At the same time, they also established a group of specialized export commodity production plants for producing specialty vehicles, in order to lay the foundation for enlarging exports.

The development of foreign trade has been a positive factor in the advancement of economic development in Hebei. According to preliminary corrected statistics, in the last 10 years, nearly one billion yuan in RMB have been put into Hebei in support of various kinds of production for export, a volume of foreign exchange \$400 million. They have imported sizable quantities of steel and wood products, chemical fertilizers, and pesticides. This is in addition to other goods, materials, and technical equipment which China lacks, in order to further Hebei's industrial and agricultural development. In the past 10 years, Hebei has made a grand total of \$23.5 billion in sales, in locally-produced export products, resulting in 4.7 billion yuan in tax receipts.

Through constant improvement of its foreign investment climate, Hebei has attracted investors from more than 10 nations and regions, including Japan, the United States, West Germany, Spain, Finland, and Australia. The investments have been in 11 different areas, spreading out from light industry, light textiles, and service industries, to machinery, electrical equipment, construction materials, metallurgy, and chemicals. The utilization of foreign investment and imported technology has been vital to the acceleration of Hebei's economic construction.

As for foreign contracted engineering and labor cooperation, Hebei has all along participated in wide-ranging economic and technical cooperation with 15 nations and

regions, including Iraq, the United States, Nepal, Liberia, the Congo, and Hong Kong. The areas of cooperation include industry, agriculture, irrigation, transportation, and communications, civil construction, and tertiary industries. There have been a total of 26 contracts concluded for foreign engineering, which made more than 1,000 engineering and technical personnel assignments, showing a profit of over four million yuan. They have concluded 25 labor cooperative projects, with more than 1,500 labor assignments, making 4.5 million yuan in profits and earning \$1.1 million in foreign exchange. As part of these foreign engineering contracts Hebei exported construction materials and engineering machinery, increasing the province's fund-raising power.

**Tianjin Interested in Importing Products Directly**  
*42050005a Selangor SIN CHEW JIT POH in Chinese*  
*24 Sep 88 p 1*

[Text] The visiting Tianjin trade delegation plans to buy Malaysian rubber, palm oil, timber and paper pulp, so if the transaction is successful, it will be Tianjin Municipality's first direct import of timber and paper pulp from Malaysia.

This was said by Hu Jinling, leader of the Tianjin Trade Delegation, today after paying a courtesy call on Deputy Trade and Industry Minister Datuk Kok Wee Kiat. Mr Hu added that Tianjin has always bought Malaysian rubber and palm oil directly but imported timber from other countries.

He pointed out that Tianjin Municipality badly needs lumber-processed commodities, such as household furniture, and that the quality of Malaysian hardwood is high enough to fulfill the municipality's needs.

Mr Hu said that generally speaking the palm oil imported from Malaysia is edible, but now China is considering importing palm oil to produce soap.

Hu Jinling divulged that Tianjin exports \$1.5 billion worth of goods every year, but the commodities exported to Malaysia amount to \$15 million only, or one percent of the total.

He expressed hope that in the wake of the signing of the trade agreement between Malaysia and the PRC as well as the solution of mutual tariff problems, both countries will strengthen the bilateral contacts and investment, as well as their overall relations.

He said that the purpose of his delegation's visit to Malaysia is to strengthen understanding, foster friendship and develop Tianjin in a spirit of reciprocity.

He expressed great confidence in the cooperation and development of both countries.



Hu Jinling is Tianjin Municipality Bureau of Foreign Trade's deputy director, while the 11 members of his delegation are made up of responsible officials of major companies there.

Among those who escorted the visiting delegation to call on Datuk Kok Wee Kiat were Liang Bihua, trade counselor of the PRC Embassy; Lin Chengfa, director of China's International Trade Department; and Yang Yin-hui, board chairman of Yuhualong Trading Company.

## AGRICULTURE

### Proposed Reforms for Procurement System of Agricultural Products

40050037a Beijing JINGJI CANKAO in Chinese  
19 Sep 88 p 4

[Text] In 1985, China abolished state monopoly on the procurement of agricultural products and replaced it with a combination of contract procurement and market procurement, a dualism in the circulation of agricultural products that has remained to this day. While the double-track system has worked by easing the conflicts of interest in the course of reform, hopes that double-tracking would gradually get rid of the old system and nurture a new system in its place, ultimately giving way to a unitary system, have been dashed.

Double-tracking still follows the "rules" of the old system, minus restrictions on some practices. This makes it possible for the old system to reassert itself when necessary. For instance, a significant part of grain procurement is regulated while a much smaller portion is decontrolled. Moreover, cheap grain under the state monopoly on marketing has not been abolished. When sales increase or when supplies diminish, the scale of contract procurement increases as a result, thus further reducing the market-regulated share. When procurers compete for decontrolled agricultural products, local governments blockade the market and monopolize their buying and selling. The result is that the market does not really operate for these products even though they are decontrolled. Between the contract procurement of grain and the fixed quota for grain marketing, the state erects a barrier with financial subsidies, keeping both production and consumption out of the market. On the one hand, peasants are not fairly compensated for the grain they sell and consumers are not required to pay a fair price for the grain they buy. On the other hand, the state is paying more and more subsidies. Because urban interests are strong, increases in the procurement prices of agricultural products can only be absorbed by the state treasury. When the financial burden becomes onerous, when supplies drop and market shortages worsen because peasants' enthusiasm for production is dampened by low prices, there is no alternative but to resort to the old practices again.

For these reasons, a new system will not emerge from the double-track system just on its own; reform must make substantive breakthroughs. The reform of the circulation system of agricultural products should take a two-step approach. The first step is to be effected within the existing double-track framework. Essentially it involves reforming the mechanisms to promote market development. In the second step, the circulation of all agricultural products should be basically decontrolled to be regulated by the market.

The plan for the first step mainly consists of the following:

1. Reduce the fixed quota for the marketing of grain and stabilize and reduce financial subsidies. In recent years, per capita cost of living among urban residents has gone up rapidly, reaching 828.88 yuan in 1986, up 80.74 percent over the 1981 figure of 458.04 yuan. At a time when incomes are increasing generally, the consumption structure is also being diversified and different people have different consumption priorities. As currently practiced, the cheap grain subsidy system makes no distinction between income levels and consumption patterns. As a result, the government is saddled with a heavy burden while a big chunk of the subsidies is wasted. Hence the need to adjust the cheap grain subsidy system by differentiating between different situations. That is, subsidies should be limited to people below a certain income level and to the most basic grain ration. People whose income exceeds the basic level and who want to consume good-quality grains (such as high-grade husked rice and Fuqiang rice noodle) should not be eligible for subsidies. The same should apply to meat, vegetables, edible oil, and sugar. As our cut-off point, we can take the percentage of expenditures that a certain low-income group spends on food, say 40 percent, and use it to determine the amount of subsidies and the people to be subsidized. People with no income and whose income falls below this level would be eligible for subsidies, the amount of subsidy being the current cash amount. Once they are set, both the subsidy amount and subsidy base will become absolute values (to be adjusted only in accordance with the price index of the subsidized food item). That way subsidies will decrease as a person's income goes up. As a coordinated measure, instead of issuing grain coupons to people receiving subsidies, we should give them grain certificates with which they can purchase grain. Also, grain coupons should be abolished nationwide to prevent subsidies from being wasted. When a resident does not want to purchase ordinary grain, he can return the cheap grain quota to the grain store and will receive a certain discount off the price differential as compensation.

2. Strengthen market regulation within the existing contract system as a step toward a genuine contract system. Concerning the current prices of agricultural products, grain prices under contract procurement are too rigid, reflecting neither changes in production costs nor the supply-demand situation. In 1985, for instance, there was a severe grain shortage accompanied by sharp rises in production costs. Yet grain was relatively cheap then, with

the net income on one mu of grain falling 30 to 40 percent below that of 1983. On the other hand, agricultural prices which had been decontrolled fluctuated wildly. Thus doses of the market should be injected into contract procurement to gradually make contract prices more and more reflective of production costs and changes in the supply-demand situation. As for the prices of agricultural products that had been decontrolled completely, they should be brought under a true contract system with stabilization mechanisms and risk-sharing mechanisms.

Under the double-track grain procurement system, the first step is to revise contract prices based on market levels in order to introduce an element of the market into contract prices imposed on peasants. Next, the average of the actual contract prices for the previous three years may be used, with adjustment for current market prices. That way contract prices will mirror grain production costs and long- and short-term changes in grain supply and demand more and more accurately even as the prices remain largely stable. Moreover, this price-fixing method makes it easier for the peasant to respond and plan rationally. Since grain demand is highly inelastic, that part of the grain price adjusted for changes in current market prices would not be passed onto consumers. Consumers respond only to information on more long-term changes. As for people receiving subsidies, the average of the price levels for the past three years can be pegged to the amount of subsidies according to the index. Given a stable environment, both peasants and consumers can gradually adapt to market mechanisms.

3. Facilitate the formation of intermediate circulation organizations and establish stabilization and risk-sharing mechanisms. In a developed nation, the natural outcome of the growth of a market is a futures market for agricultural products. A futures market distributes risks and stabilizes the interests of the producer, operator, and consumer. Given the present level of market development in China, a futures market remains outside the bounds of possibility. To avoid excessive fluctuations in the prices of agricultural products, a more feasible approach is to comply with the peasants' choices and stabilize the market with an intermediate circulation organization. Such an organization can enter into contracts with consumers or commercial and foreign trade departments and with peasants to distribute market risks from year to year. That is, a risk fund should be set up to pay compensation to peasants when supply exceeds demand, using surpluses accumulated when demand exceeds supply. The idea is to stabilize peasants' incomes from the sale of agricultural products.

**Declining Water Volume in Large Reservoirs**  
40060037b Beijing NONGMIN RIBAO in Chinese  
19 Sep 88 p 1

[Article by He Dingming 0149 1353 2494: "Falling Water Level in Large Reservoirs"]

[Text] As of 1 September, total water stored in reservoirs was 101.8 billion cubic meters, 12.86 billion more than

early August but 21.3 billion less than the same period last year, and only 900 million more than the average for the past several years for this time of year, according to data on 307 large reservoirs in 25 provinces, regions, and municipalities supplied by the State Flood Control Office. Thus we cannot be optimistic about the amount of water in the reservoirs.

Since August, most areas in the country have picked up a considerable amount of rainfall. Consequently, the volume of water in reservoirs in Hubei, Hunan, Hebei, Henan, Jingsu, and Guangxi has all increased to varying extents. On 1 September, total water stored in the 12 large reservoirs in the Taixing Mountains in the north stood at 3.319 billion cubic meters, the highest in the entire history of the People's Republic, and 210 million cubic meters more than 1963, when severe flooding occurred. Not only have the reservoirs been doing well this year, but even Baiyangdian Lake, which had been dry for several years, had collected water to the tune of 574 million cubic meters as of 1 September. In contrast, reservoirs in Jilin and Zhejiang had less water on 1 September than in early August.

According to statistics on the nation's 30 key large reservoirs, their total water volume was 62.2 billion cubic meters on 1 September, 8.5 billion more than early August, 11.5 billion less than the same period last year, and 4.8 billion more than the average for the same period over the past several years.

Water volume in Beijing's two major reservoirs, Guanting and Miyun, also increased during the flood season to reach a total of 2.33 billion cubic meters on 1 September, 273 million more than the same period last year.

**Declining Grain Output in Southern Provinces**  
40060040 Beijing JINGJI CANKAO in Chinese  
26 Aug 88 p 2

[Article by reporters Lai Yuzhang 6351 3768 4545, Liu Xianpeng 0491 0103 7720 and Li Hu 2621 3337: "How Do We Get Out of the Grain Shortage Predicament—A Look at the Grain Problems of Guangdong, Fujian, and Guangxi"]

[26 Aug 88 p 2]

[Text] As the industrial structure in the villages has been adjusted, the three southern coastal provinces of Guangdong, Fujian, and Guangxi have come to have the nation's largest grain shortages. Every year these provinces must bring in large amounts of grain from other provinces.

**Bringing in 7.5 Billion Kilograms a Year**

How much grain do the three southern coastal provinces actually lack? Because there are so many channels through which grain comes in, presently no department can give an accurate figure. But, the governments in each

province do have a rough idea. As these reporters understand it, the three provinces bring in about 7.5 billion kg of grain through trade with other areas. Of this, Guangdong brings in 4 billion kg, Fujian 1.9 billion, and Guangxi 1.7 billion. The three provinces also bring in partial amounts of pork and feed grain. If these factors are taken into consideration, the grain shortage amounts are even larger. The vast portion of the grain bought in by the three provinces is from domestic sources, and last year about 20 percent came from outside the country.

The three southern coastal provinces began bringing in large amounts of grain from outside in 1985. In that year, Guangdong, Fujian, and Guangxi adjusted their agricultural structures in order to give full play to their strengths stemming from their location in the subtropical zone. They planted more cash crops, developed those agricultural items that would earn foreign exchange, reduced the area planted with grain, and thus, the amount of grain produced fell. Since 1985, the three provinces have had increased shortages of grain each year and this had led to the present predicament.

#### Should We Rely on Producing or Buying Grain?

What should the three provinces rely on for getting the grain they need? Early in 1985, two different arguments came forth in the three provinces to answer this question. The first argument was Guangdong, Fujian, and Guangxi are located in the subtropical coastal region and are neighbored by Hong Kong and Macao, so they should give full play to the superiority of this natural condition and of their geographical location and develop the cash crops and foreign exchange-producing agricultural items with high economic results. They should reduce the area of grain planting, and then use the increased income to purchase grain. Another group disapproved of this view. Their argument was that grain is a special commodity and isn't available for purchase at any time one may like. There are times when one may have the money but still can't purchase grain; and even if one makes the purchase, transporting the grain may not meet one's timetable or the supply may be too small. Thus, the safe route is to provide for stable areas for grain planting, emphasize single-product production, be basically self-sufficient, and bring in little grain from outside places.

In the course of conducting interviews, the reporters learned that the majority of people are inclined to support the second view, and the decisionmaking organs in the three provinces also adopt this view. This choice is founded on consideration of the following points:

- Domestic grain sources dwindle every year. Grain comes to the three provinces primarily from Hubei, Hunan, and Jiangxi. At present Hubei, Hunan, and Jiangxi produce about 450 kg of grain (raw) for each person per year and each person requires 400 kg for consumption purposes. Even if every person could send out 50 kg of grain, the conversion of trade grain

would only total over 5 billion kg. If the entire amount were sent to the three provinces, it still would not be enough.

- Grain imports have also met with difficulties. The various government levels in the three provinces haven't much foreign exchange and have no way to import large amounts of grain. The other main difficulty grain imports have faced is that the price of husked rice on the international market is higher than wheat and corn, but the residents of the three provinces are accustomed to eating husked rice. Based on the calculated cost of \$280 to purchase a ton of imported rice, which converts to 1551.2 RMB, the average price of a kg of rice is 1.55 RMB. Who is going to eat rice at these sky-high prices!

#### Sell Within, Supply From Within—Sell Outside, Supply From Outside

The three provinces of Guangdong, Fujian, and Guangxi which are located in the subtropical and torrid zones are China's "treasure trove" in developing many different kinds of management and foreign exchange-producing agriculture. But the people of Guangdong, Fujian, and Guangxi each are represented by an average of 0.71 mu, 0.67 mu, and 0.9 mu of cultivated land respectively. After the second step in village reform, the three provinces recalled over 20 million mu of grain fields, so it could be used for various management and agricultural by-product exports. The results were remarkable. However, at the same time and as a consequence, the supply shortages of grain in the three provinces became increasingly large. How does one go about remedying the grain shortages caused by the development of various kinds of management and foreign exchange-producing agriculture? Certain economists proposed that "local sales should make local supplies, and outside sales should make outside supplies."

In the last few years, the primary competition with grain in these regions has been such agricultural products as sugar cane, peanuts, roundpot jute, bluish dogbane, asparagus, lotus seed, bananas, green vegetables, flowers and plants, and pool fish. These products were sold domestically and also outside the country. When the regions sell the large portion of their agricultural by-products to areas within the country, their shortages of grain should be remedied by grain from these areas, hence "local sales make local supplies." When the regions sell those agricultural by-products to the areas outside the country, they earn foreign exchange, and this should be used to purchase grain imports to solve their shortages, hence "outside sales make outside supplies." By following the path of "local sales make local supplies," there needs to be micro-initiation and macro-control measures. Some people propose that, henceforth, whether domestic allocation and transfer of grain is done at par or negotiated prices, it must be done the same way as the import and export of products—according to quotas. The state departments concerned can determine

the quotas for bringing in and sending out grain at par and negotiated prices on the basis of the supply and demand situation for grain in the various provinces. Also, the departments can disclose this information through the various levels to the provinces, regions, cities, and counties. Then, the grain can be moved using permits and such departments as the railroad, the sea and river transport, the Public Security Bureau and the Industry and Commerce Administrative Bureau can watch over and supervise this. And the areas that lack grain can trade sugar, vegetables, and bananas for the grain of the areas with surpluses.

By following the path where "outside sales make outside supplies," the percentage of retained foreign exchange must be suitably raised from the exports of agricultural products. Some experts feel it would be appropriate if the retention of foreign exchange that exceeds the base were raised to seven times.

Foreign exchange that exceeds the base earned by the newly constructed foreign exchange-producing agricultural bases should be wholly retained for 3-5 years. Newly developed agricultural product exports should be given single item export powers, and during the five years of test sales all foreign exchange should be retained. In addition, management powers for import and export of agricultural products should be delegated and spread to lower levels when appropriate, and self-management should be permitted for exports of agricultural by-products and processed products. Appropriate tax reductions should be made for imports of goods needed by foreign exchange-earning agricultural items.

[27 Aug 88 p 2]

[Text] In the last few years, the three southern coastal provinces have made some minor reforms in the buying and selling of grain and have made beneficial attempts at further reforms.

The buying and selling methods of grain in the three provinces have varied in the last few years, but they have generally been characterized by raising the level of par price grain that is purchased in contracts linked up with chemical fertilizer; cutting back on the sales of par price grain; eliminating a unitary system for grain sales; raising the buy and sell prices of grain. Major reforms in these categories have been Shenzhen's elimination of a unitary system for grain sales and Yulin's comprehensive reforms in the buying and selling of grain.

Shenzhen eliminated its unitary system for grain sales in November 1984. In three and a half years, its grain market has consistently been marked by supplies exceeding demand, stable prices, and a calm among the people. The reasons for this are: first, Shenzhen's workers earn a higher wage than workers in the hinterland and residents are more able to withstand high grain prices; second, with its frontier line of defense, Shenzhen can control the entry and exit of people and ensure a stable supply of

grain; third, the grain sources are guaranteed. In the last 3 years the Grain Bureau of Guangdong Province has allocated and transferred a definite amount of par price grain to Shenzhen. In recent years, Shenzhen has retained increased amounts of foreign exchange and has been able to import grain from abroad or import agricultural goods and then trade them for domestic grain; fourth, it eliminated the unitary system for grain sales at the right time—just when the country was undergoing a period of "difficulty in selling grain."

Some new problems emerged after Shenzhen implemented its system for buying and selling grain. The Shenzhen city government placed several price restrictions on grain sold by the City Grain and Oil Trading Company and this caused the buying price for grain to be higher than the selling price at times. A new topsy-turvy phenomenon had emerged which increased the financial burden on the government. At the same time, some grain flowed back out of the Special Economic Zone.

Yulin implemented reforms in buying and selling of grain beginning 1 April of this year. At present it looks like the results are pretty good. The reforms brought the following changes: first, the amount of grain sold by state-run grain shops was reduced. Before the experiment, state-run grain shops in the city sold an average of 55,000-75,000 kg of grain each day. Ten days after the experiment, the same shops had sold a total of 557,800 kg of grain, which is an average of only 55,000 kg a day. Second, there was increased enthusiasm of the farmers to plant grain. The area planted with early season rice increased and the area planted with hybrid rice more than doubled. Third, the residents became conscious of grain conservation.

The reforms in the purchase and sales of grain in Yulin stipulated that "Cadres and employees will be subsidized through the enterprise unit that pays their wages; the managers and operators of those individual businesses that have already received their operating licenses will be dealt with in the same way as the enterprise units." Many enterprise leaders and most individual businesses indicate that they understand this new method.

However, because the reforms in buying and selling grain in Yulin and Guangdong haven't been widely propagated, they have come as an unpleasant surprise to certain areas. Since March, there have been a few incidents of stockpile purchasing of grain in cities and counties of Guangxi. This is the result of those areas not hearing about the reforms in buying and selling grain.

Economics have put forth the following views on how to make the reforms in buying and selling grain successful:

First, progressively alter the food mix and habits of residents in the three provinces. Have them eat more wheaten foods and less rice. At present, rice is one of the grains that is short in supply in the three provinces, but wheat and corn reserves are huge and supply exceeds

demand. The market price for rice has soared, but wheat and corn haven't gone up. Residents of the three provinces like to eat rice; aside from it being their custom, another reason is that rice is cheaper than wheat flour. Looking at the unified sales prices of grains in the state-run grain shop in Nanning: 500 g of standard wheat flour is 0.17 yuan, and refined wheat flour is 0.26 yuan, but standard No 3 rice is only 0.142 yuan and standard No 1 rice is only 0.156 yuan. These grain prices are the reverse of grain prices in the international market. Economists feel that reform of grain variety prices should be one item in our reforms in buying and selling grain; also, domestic grain price reforms should fit the same lines as international grain prices. If we can start making the appropriate raises in the selling price of rice and lower the price of wheat flour, and at the same time successfully urged the people to eat more wheaten foods, then the people of the three provinces will become accustomed to eating more wheaten foods and less rice.

Second, decisionmaking in the reforms of grain buying and selling should be spread out and movement should be slow. Spreading out decisionmaking and keeping the scope small will help to make the measures suit local conditions and fit with reality. Also, it can help in avoiding decisionmaking mistakes.

By moving slowly, clashes of neighboring regions can be reduced, the shocks can be kept small, and the people will come to accept the reforms.

Third, reducing sales of grain at par prices should be continued but, aside from reducing use of grain and syrup in the industry, relief grain can be substituted by money. If reductions can be counted, the lagging portion in the "double track system" of grain can be reduced year after year and the thriving portion can progressively increase. Also, the state's grain and financial burdens can be lessened; and the farmers can increase their income and grow excited about planting grain.

### Writer Extols Reportorial Literature Exposing Abuses

40050058 Beijing RENMIN WENXUE [PEOPLE'S LITERATURE] in Chinese No 8, 20 Aug 88 pp 105-109

[Article by Liu Binyan 0491 6333 7159: "Bounden Duty"]

[Text] Editor's Note: This article was written as the foreword to the most recent collection of reportorial literature, "Children's Stories of the Soil," by the young author Mai Tianshu [7796 1131 2873]. This book is due to be published by Huacheng Press. With the permission of the author, this foreword is published here first to entertain the readership.

Tianshu and I are in the same profession. Not only are we both reporters, but we both worked at one time or another for the ZHONGGUO QINGNIAN BAO [CHINA YOUTH NEWSPAPER]. There is a difference of 31 or 32 years in both the time of our birth and the time when we went to work for the CHINA YOUTH NEWSPAPER. During the year of Tianshu's birth, 1956, the Chinese newspaper world and literary world were going through a brief period of good times. In the following year, a historical turn in events occurred that changed the destiny of our two generations (and possibly of a third). Twenty years later, when a storm unprecedented in the history of mankind subsided, the Chinese opened their eyes and were astounded. How could it be that the problems China faced were exactly the same ones raised 20 years before?

This applied to the nature of the problems. As for the severity of the problems, a comparison is difficult; and it is hard to tell just how much more difficult were the conditions for solving them. This was true of the subjective conditions, in particular; neither can the people, or the people who led the people then and now, be compared.

However, one cannot say that people became completely bad. Tianshu went through turmoil from age 10 to age 20. That Great Revolution wiped out countless people, and destroyed the normal conditions in which scores more or several hundred times more people grew up. However, it also awakened millions upon millions of Chinese. Among Tianshu's generation, it made implacable enemies of the social forces that created the Cultural Revolution (this does not mean those who participated so ardently). Among people in our generation, many felt that China's hope reposed in the youths who entered college between 1977 and 1979. Tianshu had been one of them.

Of course, people who go through the same circumstances do not select the same path through life. The same is true of people in several different generations. People become worldly wise and play safe, or they become disillusioned with the world, or they become eager for quick success and instant benefit. China's isolation from the rest of the world and the internal blockage of the flow of information, which lasted tens of

years, inevitably created an oxygen deficiency for thinking, and a restriction of political and cultural horizons. The sometimes shady, sometimes sunny weather that followed, and the alternating hot and cold, also frequently caused influenza of the spirit leading to a blockage of the channels through which the body's vital energy flows, and a disjunction between the body's vital essence and blood.

However, that some strong people withstood external changes with their inner natures intact, and were able to come through as cause for rejoicing. In the newspaper world and the reportorial literature world, after striding along a narrow path for several years, and suffering through the somber days of 1985, some new talent pushed China's reportorial literature to new heights. This is an important event that very much merits exploration, the significance of which is positively not limited to the literary world. I believe this to be yet another demonstration of the vitality of the Chinese race. The morality, justice, and bravery of this new army marks a new consciousness among the people, and the latter provides, without doubt, a powerful backing for the former.

Mai Tianshu's first reportorial literary effort "The Soil and the Homegrown Emperor," ("China's Writers," First Issue, 1987) appeared in 1987, a particularly political season, and aroused special attention.

"Homegrown emperors" such as Li Jiyin [2621 6060 6892] have existed in China for at least almost 40 years. The genuine labor heroes or the bogus labor heroes in rural villages, as well as the progressive personages who rely on semi-donkey legs to get into the political limelight and who, once certified, can enjoy glory their whole life long, gradually evolving into despots who can do whatever they like, are nothing new. However, because of our news system, they have rarely been made public, so this is the first time that Chinese readers have been able to understand such situations from beginning to end. How is it possible for an independent kingdom such as Li Jiyin's to continue to exist in the People's Republic of China, which has had four constitutions, and which has gone through 10 years of calamity to enter a new historical period, particularly in the middle of the 1980's after the Communist Party's completion of a mammoth Party rectification on a national scale? Mai Tianshu is the first to provide us with an answer.

I was particularly delighted with Chapter 5, titled "Public Opinion." Li Jiyin imperiously and despotically paid no mind to the department director from the Provincial Communist Party Committee, yet deferred so much to reporters from various news units who had no authority at all that people did not know what to make of it, "thus showing that he knew well the ingenious use to which public opinion can be put in political life." Unfortunately, much better educated and higher ranking people have yet to understand what they should distill from this experience. Over a period of several years, the Party

newspapers SHANXI RIBAO and SHANXI NONGMIN BAO, as well as the in-house newspaper, the radio station, and the television station of the Xinzhou Prefecture CPC Committee, received more than 100 reports about Li Jiyin. Destruction of a "commercial street" that had been built by 35 households became one of Li Jiyin's pioneering achievements in the "enlivening of commodity circulation and development of a commodity economy." Public Security Committee kidnapping, beating, and punishment of people was hailed as the "rescue of youths who had gone astray." Not only did he become a hooligan despot who killed people, set fires, and would stop at no evil, but he became the "rural people's caring Party branch secretary." His embezzlement of more than 3,000 yuan of public funds was depicted as a glorious deed in a report titled, "Rejects Corrosion; Never Tarnished!"

During the past several years a requirement directed specifically toward writers has circulated that says, "You are a Party member first, and a reporter second," and "you are a Party member first, and a writer second." Why was it that only reporters and writers needed this special reminder? A look at one third of the space in the Shanxi provincial newspapers, and more than one half of the space in prefectural newspapers, which contain dispatches from "correspondence secretaries" at all levels, provides a general understanding of why the application of Party member organizational and disciplinary principles to writers is so important.

A deputy unit chief in a county CPC Committee correspondence unit told Mai Tianshu that "correspondence units are spokesmen for the Party; you must only report good things. If you write about good things, they will be approved no matter how long, but if you write about bad things, no matter how compactly written, they will not be looked upon with favor." Two correspondence secretaries in Changzhi City were more candid. They said, "To be honest with you, the Municipal CPC Committee's rulings require that you write this way, so what else can you do? Our brains are the secretary's, not our own."

"Party spirit," if it genuinely is Party spirit, should not be in conflict with a reporter's bounden duty. No matter whether one is a Party member "first," or a reporter "first," can one fail to be moved when seeing the destruction of walls wrought by Li Jiyin, and hearing peasants who have no home to which they can return sobbing, "Oh, are people like us considered to be people?" Consequently, "When hearing the lament of the wife of Yang Runxi [2799 3387 6007] (who was ill and had no money for treatment), and savoring the words of Runxi, which caused heart palpitations, I was riveted to the spot for a long time. Why live? ....to live for the sake of living; to live for the sake of finding a little peace; to live in order to be a little warm in winter; to live in order to be a little cool in summer; and to live in order to eat some sweet potatoes when hungry...."

"These are, after all, the most basic requirements for human existence.

"But they were not able to live in this way.

"Shall we let them call out to heaven? Shall we let them call out to the earth?"

"No, society itself will have to provide an answer sooner or later."

It is just in this way that a heart that flutters with the joys and sorrows of ordinary people is able to make a reporter or a writer both sensitive and courageous.

It was just such a heart that made Mai Tianshu move naturally from the social and political realm into the human realm, and to return from human problems to social and political problems. Of course, he knew that people need more than just enough to eat and to wear. In the most hidden yet most influential corners of human life, he heard hidden groans, and he strode into that forbidden zone that had been heavily guarded for scores of years, writing, "White Night—Handwritten Notes From Interviews on Sex Problems" (Reportorial Literature, Second Issue, 1988). He saw in the silent blank of Chinese life a trampling underfoot of the happiness of human life that people have the right to enjoy. An ancient people most adept at passing down from one generation to another has suddenly lost the common sense indispensable to reproduction, and the instincts that mankind possessed when he was an animal. Is there anything more preposterous than this? A vanguard that regards as its duty the liberation of all mankind (and doesn't liberation mean allowing all to enjoy maximum freedom and happiness?) has surprisingly come to regard as taboo the basic desires and feelings that distinguish people from plants. When relations between the two sexes have been a field of science throughout the world for nearly 100 years, and when sex education has been provided to male and female students in numerous countries, including the USSR, for more than 20 years, a book of only a few score pages that has been printed by the state owned press at that, "Handbook of Sexual Information," remains forbidden to adult Chinese! "Love River Rolls On" ("Chinese Authors," Fifth Issue, 1987) may be regarded as a sister publication to "White Night," and thus we believe its subject matter can also be applied. The sentence "people live in the same way that they love" holds rich connotations. Even the subjects in Hengshan Village in Shanxi Province can find a hint of the truth of this with regard to the homegrown emperor, Li Jiyin, against whom they are filled with resentment but are powerless to oppose. The suppression of instincts is the first step in the emasculation of the spirit, and it is where the seeds of submission are planted.

In Tianshu's reportorial literature, material is not adorned with fancy phrases or organized through the expression of subjective ideas and emotions. His thoughts, feelings and reality move along as part of a piece and gradually sink in. His thinking develops as facts or events are portrayed; consequently, from time to time incisive capsulizations in the form of epigrams leap

up suddenly before our eyes. "Society ultimately causes a separation of the instincts of one person and another. ("White Night"). "In this space in which there is a shortage of material, there is such a strongly indomitable world of the spirit!" (Love River Rolls On)" "...I realized that never in his whole life had he gone to the county seat, or traveled by train, or eaten a cookie, and I suddenly thought that maybe it was because he had known so little happiness in his life that the happiness he passed along was so intense..." (The West Belongs to the Immigrants")

In this final example, one can see the process whereby Tianshu's thinking vaulted from sensory data to a rational conclusion.

However, this was definitely not a purely rational logical form of thinking. In the material gathering and writing process, there is never a time when the writer's feelings do not go along with his observations, imagination, and thinking. Look at this feelings after having gathered material in Anhui for "Love River Rolls On." "No other gathering of material made me smile so happily, feel so glad, or feel so sad as the gathering of material at Jingyuan in Anhui..."

"As I arrived I felt young, but when the time came to leave, I began to feel old and feeble. All kinds of feelings of happiness and feelings of loss simultaneously crowded my restless heart."

But how did the author feel toward the end of "The West Belongs to the Immigrants?" At twilight, I stood on a hilltop to one side of the bridge across the Huang He at Jingyuan, looking off into the distance and thinking. I felt that the Huang He beneath my feet was crying and moaning. Its face was shriveled, and its voice was wretched.

"...several hundred openings, and several thousand pipes reach out in parched and poverty stricken tribulation toward this river of sorrow, each of them more wretched than the other, powerfully sucking, sucking... The Huang He's water level has gone down noticeably....oh, Huang He, will you dry up? Will your progeny downstream be parched too? When the Huang He no longer bears its burden, what will the west do, and what will China do too?"

"We live in an age that can only be filled with worry."

"The West Belongs to the Immigrants" ("People's Literature," Fifth Issue, 1988) is a new work by Mai Tianshu. Here, he again reaches a new height.

I do not know why after reading this work I felt as though I had read a full length novel. Possibly it was because of the heavy feeling left by the unrolling of the picture scroll bit by bit.

As the scroll unrolls, we step with the author into a seemingly not unfamiliar world. The Northwest is in the midst of a drought. Yes, we have known about that for a long time. And it is also destitute. But the extent of the drought and the destitution exceeds our imagination. Next, the writer shows a picture scroll. As they walk home from a meeting, children have to dig up sod for fuel. They go on digging it up year after year. This is to say that in order to survive today, people must destroy the conditions for tomorrow's survival. According to scientific postulations, the critical index for an arid region such as this is 20 persons per square kilometer, but in the Dingxi and Xihaigu areas, the population already stands at 200. This is certainly a crisis situation. But the writer reveals that there is no need to hurry; this is far from the ultimate crisis point. Another picture scroll is revealed. The greater their hardship and the greater their poverty, the more intense is people's desire to reproduce. After having 10 children, they still will not give up. The author says bitterly that "this tract of land annually creates more than 20 percent of the rate of population increase, and its difficult to describe poverty enriches our excessively rich world." Then he disgorges an aphorism: "It is only on the issue of rearing children that the people here can express their greatest sense of equality and enterprising spirit." Now we learn that it is not just "fear of inhaling fire rather than oxygen into the lungs," but of stifling the spirit, because this pursuit of many children and grandchildren is carried on not just in the midst of hunger, cold, and drought, but in a situation in which very many people beg for a living. Now, one hope appears, namely, the state has decided to appropriate the huge sum of 200 million yuan each year for ecological projects and the building of agricultural facilities, and it also intends to develop immigration sites in the Huang He river valley and in the Hexi Corridor. Plans have already been drawn up for immigrant housing and cultivated land. A way out of poverty looms ahead. But, there is a difficult to imagine strange turn of events: The inhabitants are unwilling to leave! Painstaking mobilization, and visits to the prospective area fail. Finally, a small number of people are aroused to go to the immigration zone where running water gurgles and the land lies open and flat, but in less than a year almost half of them flee back! Just what is the reason for this? The author pulls aside yet another veil that enables us to see the aridity of people's psychologies. In addition to filial ideas about the succession of ancestors and regret at having left their native land, there was reliance on state relief fostered over several decades. "Since liberation, we have been taken care of by the state year after year." Those entitled to such treatments were, of course, only low- and middle-peasants, and this had spoiled them. The author permitted us to see a marvel, namely that people's desires and needs can be reduced to the level of being satisfied so long as they do not starve to death. Loss of the enterprising spirit can make people so lazy they will lie in bed all day long, eat uncooked grain, and drink cold water. When society distributes its (socialism's) advantages, it unwittingly volitalizes completely the decadent dependence in human character, great



material impoverishment thereby being accompanied by spiritual impoverishment and causing a vast wasteland of humanity." But this is not the greatest difficulty. The 28 counties (and districts) of Dingxi Prefecture in Gansu Province, and in Xihaigu Prefecture in Ningxia Province will give birth to more than one million people in 10 years as figured at a planned 14 percent rate of birth, but even if 700,000 of them can be resettled as immigrants, what remedy will this provide for the situation?

Mai Tianshu has written about China's most poverty stricken region; therefore, the crisis there is not generally applicable. Nevertheless, the population crisis is an issue that is common to the country as a whole. The conservatism, contentment with the status quo, and lack of an adventurous spirit that is ingrained into the people is by no means something distinctive to the people of this region. Therefore, it is not strange at all that as we finish talking about this work, the heavy feeling in our heart is not just for that tract of the loess plateau.

In short, Tianshu has confronted us with a crisis once again. This time it is a serial crisis in which the past and the present are linked. This is an especially large exclamation point, and it is a steam whistle that sounds constantly beside people's ears, conveying a deafening warning.

Attentive people will find that in describing different topics, Mai Tianshu frequently writes about events that are not directly related to the main theme. At the end of Chapter 8, "Authority," in "The Soil and the Homegrown Emperor," he suddenly veers to writing about Hequ County, which has no connection with Dingrang County and Hengshan Village, as follows: "In Xinzhou Prefecture and in Shanxi Province, there are notorious poverty stricken counties that annually eat up several hundred million yuan in subsidies, yet it seems that in the twinkling of an eye, 1.5 million yuan was spent in building a county CPC Committee office building, and another more than 1.7 million yuan was spent to build the 'Emerald Peak Guest House,'" the only one in any county of the whole province..." Later on he discloses that Pianguan is also a notorious poverty stricken county in Xinzhou Prefecture in which "such a pretty reception center dining room was built in a small provincial city of 10,000 people!" Naturally, he did not forget the palatial guest house on which several million yuan was expended by the very Xinzhou Prefecture that "ate up hundreds of million yuan in state subsidies, and the Xinzhou Prefecture CPC Committee office building that was considered the finest in all of Shanxi Province." In "The West Belongs to the Immigrants," he went to Huining County primarily for the purpose of gaining an understanding about education there, but he also saw some things that were unrelated to the drought. "In a glance, a towering 'joint forces tower' for the three armed forces of the Red Army suddenly flashed into my eyes. (A county government comrade in charge told me mirthfully that this tower had unfortunately been built in the previous year when the new county reception center was 'equipped,' but a year later, it ran up against the 'double increase and double conservation' campaign; and

the needed one million yuan could not be spent)." The author's concern was naturally not about the fineness of this structure, but about the crux of all problems in China. That structure was nothing more than a symbol. In comparing it with the Xinzhou Prefecture CPC Committee's office building, he wrote that work had been halted in mid-course for lack of funds on teaching buildings at one location at the Xinzhou Educational Academy and Commercial School, and that at another location, "only five professor's families in the whole school have moved into not very spacious quarters." Here, the problem was not just one of the amount of educational funds.

I thought about the nine "companies" that Li Jiyin operated in Hengshan Village. "One hundred different 'servers' on fixed wages open their greedy mouths and climb on the bodies of Hengshan's peasants to suck..."

In the space of four short years as a reporter, Mai Tianshu left his footprints in more than 130 counties in 18 provinces of China. This was no pleasure trip. He wanted to reveal the real China through his pen. Writing was not an end in itself. He knew very well that the enlightenment movement begun in 1919 was a long way from being completed. He wanted to enter the ranks of a new generation of enlighteners, spreading truth to every corner of China.

This was no easy task, and this role was not always welcome. The more than 100 reports extolling the achievements and praising the virtue of Li Jiyin were not founded on achievements, but the unmasking in "The Soil and the Homegrown Emperor" of Li Jiyin and those who created him was not permitted. It would have to be looked into. In 1987, like all other reporters of the same type, Mai Tianshu suffered condemnation both in speech and in writing, but the real reasons were not those given in articles of criticism that occupied three issues of the XINZHOU BAO, which said he had "attacked the socialist system," "slandered the people's democratic dictatorship," and "sowed dissension between the leaders of the Party and the masses of the people" etc. Instead, a leading comrade in a "department and bureau chief book reading group" said directly, "The 11 prefectures and cities in our province had enough of his prodding for a year."

Tianshu had been born at the right time after all, and was very lucky. Thirty years ago, 17 people in the editorial department of the ZHONGGUO QINGNIAN BAO [CHINA YOUTH NEWSPAPER] had been termed rightists, and most of them had not "prodded" the way Mai Tianshu had. But Mai Tianshu is still a China Youth Newspaper reporter today, and the carrying out of his originally intended bounden duty cannot be changed. This is China's progress for which the Chinese people have paid a historically unprecedented price. We are determined to cherish it and develop it.

I want to say a single sentence to every young reader of this book: Young people, I admire you!

27 May 1988 at Los Angeles

## EAST REGION

**Attitudes of Rural Youth Toward Joining Party**  
40050432 Shanghai SHANGHAI ZHIBU SHENGHUO  
[SHANGHAI PARTY BRANCH LIFE] in Chinese  
No 12, 14 Jun 88 pp 36-37

[Article by Feng Weixing 7458 5898 2502, Jiadingxian Chinese Communist Party Committee Organization Department: "Exploration of the Psychology of Rural Youth Joining the Party"]

[Text] The aging of rural party members is an outstanding problem. In recent years, although party organizations at all levels in our Jiadingxian have paid considerable attention to increasing party membership among youth, the proportion of young party members is still very low. County-wide, there are 675 party members under 25, which is 2.51 percent of the total number of party members in the county and 1.26 percent of the county's rural youth between the ages of 18 and 25. There are 13,134 party members above the age of 46, which is 48.9 percent of the total number of party members, and by the end of this century, most of these party members will retire and some will be close to retirement. Thus, actively recruiting educated, advanced youth in the rural areas to join the party and gradually improve the age and educational composition of the rural party member ranks is a very important task facing rural party organizations.

So, what is the attitude of rural youth about joining the party? We selected eight villages in Jiadingxian and conducted a questionnaire survey on the topic of joining the party among 233 rural youth under 25 (including league cadres, ordinary youth, rural and town enterprise employees, and those engaged in agriculture), and through comprehensive analysis discovered that the psychology of rural youth concerning joining the party has the following characteristics:

### 1. They have the Desire, But of Varying Degrees, To Join the Party

Some feel that present rural youth are blindly pursuing material benefits and do not think about advancement. Actually, this is not the case. In our questionnaire, 213, or 91.4 percent indicated a desire to join the party. Among them were 55, or 23.6 percent who had "a burning desire or urgent need to join the party." Most of this group had a fairly comprehensive understanding of the party, rather high demands on themselves, rather firm convictions, and rather unified knowledge and action. There were 22, or 9.4 percent, who "have desire and have applied, but are in no hurry." In this group there is a certain blindness about applying to join the party or they saw others write this so they did too, or the leadership told them to write this so they did and have the notion that "if you can join the party it's best, but if you can't get in it's no big thing." There were 136, or 58.3 percent who "have the desire but haven't applied

yet." This group has reservations about joining the party: some feel they are not qualified and have not yet applied; some are afraid people will laugh at them so they don't dare apply; some feel they are "kids" and it will be hard to join the party unless they are older so they lack the confidence to join the party; hence they have not applied. There were 20 others, or 9.8 percent, who "don't want to join the party." Among this group there are two situations: one is that they think the question is a little extreme, they lack a comprehensive understanding of the party, they view the minority of party members using their authority for their personal benefit and engaging in incorrect style as a problem of the entire party organization and have doubts about the advanced nature of party organizations; the other is that they have been influenced by material benefits ideology in society and think that people now are living for material benefits and everything else is useless. They take being able to have a good job, to improve their standard of living, and for their small family to be healthy as the sole aims of life.

### 2. Why There Are Clear Differences in Knowledge About Joining the Party

Due to differences in rural youths' self-esteem, there are clear differences in their understanding of why join the party which are manifested in several radically different views of value. From the questionnaire we can see that there are mainly the following three understandings:

a. Joining the party organization is an unusually significant event in an individual's life, it is a "refueling station" on the individual's road of advancement. There were 118 persons, or 50.6 percent who held this view.

b. Joining the party organization can make it easy for the individual to seek personal gain. There were 74, or 31.7 percent, who held this view. Some youth wrote on the questionnaire, "if youth like me join the party and have such a position, it will smooth the road to promotion in the future;" and others felt "joining the party gives one 'position' and it makes it much easier to do what you want to do."

c. Joining the party organization isn't very important. There were 36, or 15.4 percent, who held this view.

From the questionnaire results of 98 youth who have applied to join, there were 43 or 43.8 percent who "have been ready all their lives to join the party." Yet there were 55, or 56.1 percent, who felt that "in recent years if you don't get in it doesn't matter" and "if you run into complications, forget it." The results of this questionnaire indicate that although the majority of present youth have a strong desire to join the party organization, because of limitations in such areas as age, knowledge, and experience, their knowledge and understanding of the party is rather shallow and their feelings about the party organization are rather weak and thus they lack complete ideological preparation to realize a strong desire to join the party organization. Some of these

people were very ardent when they applied to join the party and their demand was urgent, but as time went on and as they saw people one by one being approved to enter the party, they became angry. They feel that the party organization was being hypercritical about them, that someone was making it hard on them, intentionally suppressing them. They were disheartened. There were also those who, once hearing groundless talk, would not be able to 'raise their heads' and would go so far as to withdraw their applications to join the party.

Summarizing the above, the psychology of rural youth about joining the party is generally healthy and positive but due to the influence of subjective factors, the psychology of some youths about joining the party is unhealthy or perhaps insufficiently mature. Our party organizations at all levels should view youth with strategic vision, pay heed to understanding and researching the psychology of youth on joining the party, improve their education, and guide them to grow in a healthy fashion in the correct direction.

**New Director of Anhui Radio, Television Department**

40050427d Hefei ANHUI RIBAO in Chinese  
28 Jun 88 p 1

[Article: "Provincial People's Congress Standing Committee Decides Namelist of Appointments and Removals; Approved at the Fourth Session of the Standing Committee of the Seventh Anhui People's Congress on 27 June 1988"]

[Text] Appointed: Zhu Zhaojin [2612 0340 3866], Director, Anhui Province Radio and Television Department.

**Increased Recruitment of Party Members in Fujian Over Nine Year Period**

40050427b Fuzhou FUJIAN RIBAO in Chinese  
30 Jun 88 p 1

[Article by Organization Office, Provincial Party Committee Organization Department: "Provincial Party Members Grow by 210,000 in Nine Years; Educational Level, Age Composition of Party Member Ranks Improve"]

[Text] In the nine years since the Third Plenary Session of the 11th Party Central Committee our provincial party has grown by 210,000 new members. The overwhelming majority of these new party members are outstanding workers, peasants and intellectuals who have emerged in reform, relaxation and economic construction.

In increasing numbers of party members, party organizations at all levels have stressed upholding party member standards and gradually improved the educational level and age composition of the party member ranks. According to statistics, among the new party members who have been added in each of the past nine years in our province, those who are under 35 and those who

have educational levels above upper middle school make up 58 percent and 68 percent, respectively. In the past nine years, province-wide there have been over 50,000 specialists and technicians of all types who have entered the party, making up nearly one-fourth of the total number of new party members. Through several years of hard work, our province has basically resolved the problem created by historical misconceptions that "joining the party is difficult" for intellectuals.

Generally speaking, the quality of the new party members in our province who have joined in the past few years is good, but there are also two rather outstanding problems in increasing party members: one is that some party organizations perceive the guiding ideology and basic policy of increasing party members in the new period one-sidedly and do not pay sufficient attention to getting first-line young, educated workers and peasants to join the party; the other is that some localities and units have overlooked quality and one-sidedly pursued quantity. Some are as yet unable to uphold party member standards and emphasize only diplomas, professional level, and degree of prosperity, overlooking strict assessment of political consciousness and ideological characteristics. Some individual party members and cadres attach serious importance to developing their own relatives and members of their clans, engaging in an unhealthy tendency. These issues have influenced the quality of party member ranks. In line with the spirit of the central committee, localities should in the future put the quality of work first in order to increase the number of party members, and before activists are enrolled, they should go through a short period of training and must accept party education without exceptions. We should stress drawing party members from first-line outstanding workers, peasants, and intellectuals from production and work and pay serious attention to drawing party members from advanced youth to adapt to the needs of reform and relaxation and developing an externally-oriented economy.

**Namelist of New Appointments in Jiangsu**

40050427c Nanjing XINHUA RIBAO in Chinese  
24 Jun 88 p 1

[Article: "Namelist of New Appointments of the Standing Committee of the Jiangsu Provincial People's Congress as Approved at the Third Session of the 7th People's Congress Standing Committee, 23 Jun 1988"]

[Text] Ding Zigang [0002 1311 4854], Director, Jiangsu Office of Communications; Lu Kaiyuan [7120 7030 0337], Director, Jiangsu Office of Metallurgy Industry; Nie Haiqing [5119 3189 3273], Director, Jiangsu External Economic Trade Committee; Cao Jie [2580 2818], Chief, Jiangsu Statistical Bureau; Liu Hongqi [0491 3163 4388], Director, Jiangsu Public Health Office, relieved of post as Director, Jiangsu Birth Control Committee; Lin Xiangguo [2651 4382 0948], Director, Jiangsu Physical Education Committee.

### **Shandong Forum on Strengthening Power at Grassroots Level**

40050387a Jinan DAZHONG RIBAO in Chinese  
26 Jun 88 p 1

[Text] On 22-25 June the Civil Administration Ministry convened at Taian a Rural Grassroots Level Political Power Building Work Forum to promote the experience of Laiwu City in pilot projects to release authority to rural areas, strengthen social service, and strengthen building of rural grassroots level political power.

Twenty chiefs of provincial, municipal and autonomous region civil administration offices (bureaus) heard the experience of a dozen units such as the Laiwu Municipal Committee, municipal government and organizations subordinate to the city and related villages and towns and went to Laiwu City to observe. Zhou Xingli [0719 5281 4409], Deputy Secretary of the Laiwu Municipal Committee also spoke on how to promote the experience of Laiwu and strengthen rural grassroots level state power. Pilot project units from such places as Dingzhoushi in Hebei and Haichengshi and Dandongshi in Liaoning also related their experience at the forum.

Minister Cui Naifu [1508 0035 1133] summarized the forum. He emphasized four issues: (1) How to understand the Laiwu experience; (2) the significance of Laiwu experience; (3) the scope of applying Laiwu's experience; (4) the position and function of state power departments in strengthening the building of grassroots level state power.

Cui Naifu said: Everyone generally feels that the Laiwu experience is very good. But in what places is it good? Laiwu stressed major issues that everyone is concerned about, and invigorated the overall situation. That is, through granting authority to villages and towns and strengthening social services they resolved the problem of the developmental stage of the rural areas in a commodity economy, which is a major issue which must be resolved. We think that the Laiwu experience was successful. The reform of the Laiwu system could be successful because in addition to stress on leadership by the provincial committee and provincial government, participation and help by the people's government offices, and the Laiwu City leadership team being keen on reform, in terms of the pilot project work itself, three experiences had general significance: upholding productive forces standards; upholding proceeding from actual circumstances; upholding consultation and dialogue increased the transparency of reform.

Cui Naifu pointed out that the significance of Laiwu's experience is that they found a model for a certain region developing a commodity economy. How can commodity markets be established and socialized service systems be improved? There are generally two ways: one is by relying on self-efforts by the peasants constantly colliding in practice and gradually forming a market and

service system; the other is through consciously improving the service system under the leadership of the government and promoting the development of a commodity economy and developing a commodity market. These ways can be faster and reduce the detours. Furthermore, there is a possibility that the service chain can be used to link up the major markets and small-scale production to form a cooperative economy of some significance so that neither can be separated from the other. Villages and towns may be an important link and Laiwu's experience demonstrated this point. To establish a regional economy it is necessary to resolve three issues: 1, leadership should have a conscious desire to develop a commodity economy; 2, there should be knowledge of guiding commodity production; 3, there should be the means. In terms of Laiwu's experience, they resolved the first two. What was resolved this time was the third, providing villages and towns with the means—that is, with the authority.

When discussing the range of application of Laiwu's experience, Minister Cui Naifu said: We believe that Laiwu's experience is best suited for reform of the rural economic system, regions which are in the initial and maturing stages of commodity economy.

Participating in the conference were: Zou Entong [6760 1869 0681], Deputy Minister of Civil Administration, Tan Qinglian [6223 1987 8834], Deputy Governor of Shandong Province, Ma Lianli [7456 6647 4409], Special Adviser to the Provincial Government, Song Fatang [1345 3127 2768], Secretary of the Taian City Committee, and Mayor Wang Jiangong [3769 1696 0501].

### **Diploma Mills Prohibited in Shandong**

40050427a Jinan DAZHONG RIBAO in Chinese  
29 Jun 88 p 1

[Article: "Provincial Office of Education Issues Urgent Notice; Stop Indiscriminately Awarding Academic Degrees"]

[Text] The Provincial Office of Education recently issued an urgent notice stopping operation of university and vocational classes that indiscriminately awarding academic degrees.

The notice says that recently, some higher schools have violated relevant state regulations by awarding university and specialized school diplomas to students of training classes not entitled to academic degrees; some high schools have stipulated on their own that those who hold upper secondary school and vocational school degrees or the equivalent, without national higher inspection, the school will set topics and examination, local and municipal units in charge have consulted on designating grade-line enrollment, and have completed the curriculum stipulated by the educational plan, after

having met the qualifications through assessment, they will be granted diplomas in a specialized field; some have even gone to the point of selling diplomas as a means of collecting tuition.

The notice says that all university and vocational school academic degrees (including study at college, completing a course, and graduating) recognized by the state must meet three conditions, i.e., 1) the enrolling school must be a school whose competence to examine and approve according to state regulations has been ratified; 2) enrollment should be part of the state plan; 3) it must participate in national unified examinations and have followed grading procedures.

The notice says that all education institutions offering academic degrees must be approved by the province in accordance with regulations. Those who do not offer academic degrees, the students, regardless of their academic achievements, cannot be awarded a graduation certificate, a diploma on any pretext. However, a student can be granted a report card to verify his educational level. Treatment of students who hold such a report card can be determined by the unit which employs him.

The notice says that everything which conflicts with this notice, such as contracts signed by schooling units and units assigned to provide training, general enrollment regulations and advertisements issued by schools, are invalid.

## CENTRAL-SOUTH REGION

### Guangdong Party Leader Emphasizes Reform Policy

40050038a *Guangzhou GUANGZHOU RIBAO* in Chinese 21 Sep 88 pp 1-2

[Article by Wu Zhangdi 6762 4545 2769 and Huang Dantong 7806 0030 1749: "Theoretical Research To Stress Reform and the Open Policy"]

[Text] A seminar on the theory and policy of reform, opening to the outside world, and the development of a comprehensive experimental zone opened in Guangzhou yesterday. The purpose of the seminar, which commemorated the 10th anniversary of the 3d Plenum of the 11th CPC Central Committee, was to theoretically review the practical experience of Guangdong Province in 10 years of reform and opening to the outside world; explore and intensify reform; broaden the policy of opening to the outside world; and put forward theories and policies on reform, opening, comprehensive experimentation, and the development of an export-oriented economy.

The seminar was jointly organized by 10 units, including the Propaganda Department of the Guangdong party committee; the Guangdong Social Sciences Federation; the Guangdong Academy of Social Sciences; the party school and policy studies research center, both under the Guangdong party committee; and the Guangdong Social

Economic Development Research Center. It was attended by leaders from the Guangdong party committee and departments in charge of the economy, propaganda, education, and science and technology; theoretical and practical workers; and over 160 representatives from the various municipal propaganda departments, enterprises, and units.

Present at the opening of the seminar were provincial leaders like Comrades Xie Fei [6200 7236] and Wang Zhongchun [3769 1350 2504] and veteran Comrade Chen Yueping [7115 6390 1627]; Zhan Wu [6124 2976], executive secretary of the Restructuring the Economic System Institute in Beijing; and over 1,000 leaders from directly subordinate organizations.

Zhang Jiangming [1728 3068 2494], chairman of the Guangdong Social Sciences Federation, presided over the seminar. Director Huang Hao [7806 3183] of the Propaganda Department under the Guangdong party committee delivered the opening address, and Deputy Secretary Xie Fei of the Guangdong party committee made a speech titled "Orient Ourselves to Reform, Liberate Thinking, and Explore Boldly."

In his speech, Xie Fei emphasized that we must fully understand the position and function of theoretical research in the new circumstances. He said "The CPC Central Committee wants Guangdong to be a comprehensive experimental zone for reform and opening to the outside world and continue to stay one step ahead of the others. It is both a glory and a grave responsibility to the people of Guangdong to speed up reform and opening to the outside world in an all-round way. As world outlook and methodology, theory has a far more profound impact on practice than a detailed policy or principle."

Xie Fei said, "One basic lesson we have learned from theoretical research in Guangdong in recent years is to combine theoretical research with practical reform, bring together theoretical workers with practical workers, revolve all our work around economic construction, and concentrate on the key theoretical and practical issues in reform, in opening to the outside world, and in the building of the two civilizations. Our current focus should be to intensify theoretical research on the initial stage of socialism; further theoretical and policy studies on the comprehensive experimental zone combining reform and opening to the outside world in order to offer policy options on the establishment of a socialist commodity economy; and, in view of the province's realities, increase research on capitalism, paying special attention to the Hong Kong, Japan, and Southeast Asian countries."

He emphasized that we must adhere to the "double hundred" principle, liberate our thinking, explore boldly, and create a democratic united environment for theoretical research.

He pointed out, "The main problem with the corps of theoretical workers at the moment is that they have not liberated their thought sufficiently, a problem that should be solved through studies on productive forces standards. We must uphold academic freedom. For one thing, we must steadfastly abide by the principle that everybody is equal before truth. Everybody has the right to search for and discover truth as well as the obligation to respect and be consistent with truth. We must not make the ranking or authority of a position the yardstick. For another, we must handle the mistakes in theoretical research properly and not make unrealistic and unreasonable demands. We must not demand perfection and disallow mistakes."

He said, "We must stay firmly united and observe the principle that there are no taboos in science and that propaganda should be disciplined. In theoretical research, people should be allowed to explore and discuss freely. Theoretical workers should enhance their sense of social responsibility, mindful of stability and unity even as they energize academic activities." Finally he also mentioned the need to expedite structural reform in science and technology vigorously.

The seminar was preceded by more than 6 months of intensive preparations, with lots of studies and investigations and all kinds of small special-topic groups conducting research. The result was four special-topic reports and four reports on comprehensive reform. At the meeting yesterday, participants were briefed on the gist of these reports by their drafters. Discussion at the seminar will revolve around four special topics: Guangdong's push for an export-oriented economy, the goals and policies of establishing a socialist market economy in Guangdong, banking reform in Guangdong, and scientific and technological development and the training of qualified personnel in Guangdong.

#### **Cadres Recruited Through Open Examination in Guangdong**

40050038b Hong Kong MING PAO in Chinese  
23 Sep 88 p 9

[Text] Zhongxin She, Guangzhou, 22 Sep: A young man from Shunde who earns several hundred yuan a month working in a township enterprise recently applied to take the cadre recruitment open examination organized by Guangdong Province.

He is one of 120,000 candidates for the province-wide cadre recruitment open examination scheduled to be held at many sites all over Guangdong on 24 and 25 September.

Mr Fong, the provincial official in charge of new cadre recruitment, told reporters that last year Guangdong became the first province to recruit cadres through a centralized province-wide open examination. This year even more cadres will be recruited in an even wider area. Altogether over 10,000 cadres will be recruited by the

public security, procuratorial, judicial, finance, and tax departments. Because all qualified individuals are eligible to enter the examination voluntarily and because the government has reiterated the principles of "openness, equality, and competition," it has attracted numerous candidates, 12-fold of the recruitment target.

Mr Fong said that 20 percent of the candidates are employed workers, 30 percent are rural youth, and the remainder consists of young people waiting for jobs. Surprisingly, there is no lack of people who want to work in state organs even in an economically developed area like the Zhujiang Delta. In Zhongshanshi, the ratio between the number of candidates and the recruitment target is 10 to 1. Mr Fong admitted frankly that financial and economic departments are more popular than public security, procuratorial, and judicial agencies.

Director Yuan Zhen [5913 7201] of the Guangdong Personnel Bureau was interviewed about the province's cadre recruitment open examination. He described the latest examination as the "prelude to the establishment of a civil service system." He said, "Basic to the establishment of a civil service system are, first, recruitment by examination and, second, evaluation and promotion through assessment. Guangdong will be a leader in these areas."

### **NORTH REGION**

#### **County in Hebei Experiments With New System To Combat Corruption**

40050054p Beijing LIAOWANG [OUTLOOK]  
in Chinese No 39, 26 Sep 88 p 21

[By Bao Yonghui 0545 3057 6540 and Jing Ruyue 2529 1172 2588]

[Summary] In April of this year, a system known as the "two public and one supervised" to eliminate corruption in government was established in Hebei Province's Gaocheng County. This new system remedies the old piecemeal approach to corruption as well as the traditional approach of punishing one case to serve as a warning to others. So far, the new system has proved effective in combating corruption.

At the beginning of the year, corruption was rampant. Here are some examples:

—A cadre from one commercial establishment in Gaocheng County took some people to dine at a restaurant owned by an individual entrepreneur. They consumed 175 yuan worth of food. When it came time to pay, the cadre replied, "Just remember the clothes I'm wearing. I'll just fine you less in the future, that's all." [In other words, "I'm a cadre. If you charge me less this time, when it comes time for me to collect from you, I'll charge you less."]

—In Gangshan Town, three cigarette vendors had to pay very different rates of taxes: one had to pay 90 yuan a month, another 20 yuan a month, and a third did not have to pay anything at all. A local joke goes, "A stranger has to pay a lot of taxes to the official; an acquaintance of the official pays less tax, and a person with connections to the official doesn't need to pay anything at all."

—An investigation revealed that corruption in the county was so bad that not only were officials in tax collection and commercial and industrial units abusing their powers to wine and dine without charge, take whatever they want, and extort and collect bribes, such corrupt practices were also commonplace in units of "real power" such as vehicle inspection and repair establishments, disease control centers, electricity supply units, police units, and banks.

Last year, there were more than 17 major cases of corruption and misconduct in the county. This included cases of collecting "friendly connections tax," levying "going-over-someone's-head tax," and borrowing "personal connections loans."

Were all these problems due to a lack of control on the part of the Gaocheng County leadership? The answer is no. Every year, the county would set aside some time just for reorganization and publicize an example to serve as a deterrent. Over the past two years alone, five heads of towns or townships were publically punished for abusing public position for personal gain.

Were all these problems due to a lack of laws in the county? The answer again is no. Every department could produce several large volumes of rules and regulations. However, the reality was that public examples of misconduct and legislation of laws simply could not stop officials from abusing public office for private gain or behaving improperly.

Gaocheng County leaders came to the conclusion that the reason public punishment of misconduct had no deterrent effect was because the county lacked an effective system of public inspection. In order for such a system to be created, the county would have to improve the openness of the county government.

#### **Making the Affairs of Government Public for All to See**

In April, the county began to implement on an experimental basis a system of "two public and one supervised" in 13 administrative units. The "two public and one supervised" means that the work of the government and the results are both to be made made public for the masses to supervise.

—Procedures in the conduct of government business are made public. All laws, regulations, prescribed proper procedures, channels, as well as any regulations and rules of proper conduct governing a particular industry involved are all be made public.

—All results of business conducted are made public. The following are also made public: the people involved in any given item of business, their names, addresses, occupations, and reasons for conducting the business; the time it took to conduct the business and the results; the names of the people who approved of any given item of business and their duties; money used in conducting the business, and its outlay on a monthly and seasonal basis.

—Supervision by the masses is carried out. In addition to announcing the names of public servants, the county also publishes their photographs, positions, and units. It has made the Inspection Bureau an information center and the bureau has set up inspection boxes throughout the county, towns, and villages. Every week the inspection boxes are opened and the county inspection bureau and administrative departments announce the correspondent's address and phone number. The county inspection bureau designates someone to answer telephone inquiries so that the county residents can call at any time to report improprieties and wrongdoing on the part of officials.

The target of the "two public and one supervised" system is very clear. It is none other than those holders of real power, the public servants working in the departments of tax collection, industry and commerce, finance, public security, grain, transportation, electric power, supply and marketing, materials, public health, and disease control. More than 30 categories of data on matters both large and small that intimately affect people's lives such as the registration of households, recruitment for jobs, tax collection, the issuance of business licenses, drivers licenses, loans, as well as the "three linkages" of materials supply are all made public.

To overcome any obstacles to the "two public and one supervised" system, the county government and party committee has ruled that every administrative unit must have a deputy to manage the system and the county inspection bureau must within certain time limits carry out inspections. The leaders of any unit or department that does not carry out the system forcefully will, depending on the circumstances, be subject to criticism, education, and discipline by the party and government. Disciplinary action will be meted out to the leaders and parties involved in any problems arising from the failure of their units and departments to implement this system.

Currently, units carrying out the "two public and one supervised" system have already mimeographed literature on the system, the results of the implementation,

and relevant rules and regulations. They have distributed this material to all 240 villages in the county and put up another 300 posters on walls and windows to advertise the system.

**The New System Has Brought Some Desired Initial Results**

An example of how the new system has already changed things can be found in the area of taxation. After the system was implemented, more people refused to be bribed with invitations and gifts. Fewer cases of bribery

by wining and dining occurred. More people obeyed the law and paid their taxes. Fewer people gave preferential treatment to their friends and relatives. More people obeyed the law. Fewer people left their jobs mid-term to seek private profit or were gone beyond their allowed leave times or failed to return to work.

Gaocheng County has had a good experience with the new system and plans to expand its scope to include other areas of disclosure including such sensitive areas as the distribution of housing and the allocation of emergency funds.



**Ch'en Chin-jang's Political Performance,  
Prospects Evaluated**

40050066b Taipei TZULI WANPAO in Chinese  
11 Sep 88 p 2

[Article by Correspondent Wang Ying-ming 3769 5391  
6900: "Ch'en Chin-jang 7115 6855 6245, Designated  
Policy Association Deputy Secretary"]

[Text] The Kuomintang Central Committee has designated the chairman of the Taipei Municipal Party Headquarters, Ch'en Chin-jang, for transfer to the position of deputy secretary of the Central Policy Association. Four years ago, after succeeding Kuan Chung [7070 0022], the current director of Party Organization Committee, and making a tremendous effort to create "seven happy events" that resulted in the election of Party-backed legislators, Ch'en Chin-jang advanced from the position of deputy director of the Party Organization Committee to chairman of the Taipei Municipal Kuomintang headquarters. At that time, he was under a lot of pressure since it was "not easy to fill his predecessor's shoes." Now the authorities are purposely grooming him, by virtue of his position as deputy director of the Central Policy Association, either to run for magistrate of Taipei County, or to assist the National Assembly Party Headquarters in coordinating Party and government activities in anticipation of a presidential election 7 to 9 years hence. No matter which, he will face a harsh challenge from "difficulties in doing spade work," as well as all sorts of unpredictable hardships.

**Started Out in the Construction Industry in Taipei  
County**

Ch'en Chin-jang's temperament, way of doing things, and background differ greatly from that of the preceding director of the Party organization, Kuan Chung. Where Kuan Chung was firm and feisty, Ch'en has been generous and down-to-earth; nevertheless, Ch'en Chin-jang has shown himself to be different than formerly in running for magistrate of Taipei County at the insistence of the Central Committee. He took the initiative to reveal that he wants to be elected mayor of Taipei, which aroused the attention of those outside the Kuomintang.

Ch'en Chin-jang, who comes from Taipei County, worked in the building materials and construction industry in his early years, and showed talent for the marketplace. Later on, he became chairman of the Yunghe Town Citizens Assembly, which was the starting point for his career in politics. Taipei County has the largest population of all counties and cities in the province, more than half of it consisting of people who have come from elsewhere; local power relations are extremely complex; and there are numerous factions. In a situation in which no single faction is able to extend its power to influence the political situation throughout the whole county, Ch'en Chin-jang has been limited to building up the grassroots level in Yunghe District, and he has succeeded rather well in doing this.

In 1972, the Central Committee nominated him to run in Taipei County as a supernumerary National Assemblyman. He was elected in Taipei County with the highest number of votes, and in the 1980 race for re-election, he was again elected with the highest number of votes, showing his solid local base in Taipei County.

During the period when he served in the National Assembly in 1979, he was selected for the position of deputy head of the Party Organization Committee when the present Minister of Finance, Ch'en Lu-an [7115 1459 1344], was its director. In 1984, when he was assigned to Taipei Municipal Party Headquarters, the mayor was Yang Chin-[character indistinct] [2799 6855 ?], and the head of the municipal assembly was Chang Chien-pang [1728 1696 6721].

While serving a four-year term as chairman of the municipal Kuomintang headquarters, Ch'en Chin-jang went through the Taipei Municipal Assembly election of 1985 and the National Assembly election of 1986, when he faced severe pressure from a coalition of non-Party candidates. As a result, in the 1985 election for the Taipei Municipal Assembly, non-Party municipal assemblymen increased from the former eight to twelve. In the 1986 National Assembly election, Kuomintang Taipei Municipal legislator seats dropped from seven to six. Given the objective conditions existing at that time, Ch'en Chin-jang's accomplishments were mediocre. His four years as chairman of the Taipei Municipal Party Headquarters marked a turning point in his political career. Evaluations differ about the way he handled the job during his term in office. One high ranking official who did Party work in the municipal government for many years said that Ch'en Chin-jang was very regulated. In the course of many years, he had never seen him speak or act in anger; he differed from the usual Kuomintang worker. He paid an extraordinary amount of attention to appearances. The high ranking official had never seen the slightest impropriety in his deportment or bearing, and he had a self-effacing manner.

**Generous to a Fault on the Job and Not Sufficiently  
Demanding**

People who are extremely close to him have said that he may be described in just a few words, namely, "generous to a fault, and not demanding enough."

An assemblyman said that he "almost had no feeling that he existed." On the other hand, the deputy chairman in charge of policy coordination in the assembly, Ching Feng-kang [5427 7685 1511], had a deep impression of him, and high level officials in the municipal government believed that he reposed complete confidence in his subordinates. On several occasions when Ching Feng-kang chaired the Party and Government Coordination Association, the deputy chairman acted firmly and decisively, without the slightest hesitation, showing himself able to carry out responsibilities level by level.

Nevertheless, some people held a different view. They felt, to be charitable, that his lack of assertiveness stemmed from a complete delegation of authority to subordinates; to be uncharitable, they felt that his lack of assertiveness amounted to an abnegation of authority, and that he was a weak chairman.

Some assemblymen from opposition parties believed that his way of doing things and his disposition were similar to that of the former mayor, Hsu Shui-te [6079 3455 1795], and they even criticized him for a lack of resoluteness.

He himself feels that during the past four years he has always held to the principle of "dealing fairly and squarely with people, using reason to convince people, and using kindness to influence people." His strength outside the Kuomintang has come under steadily increasing pressure, and though there have been difficulties between the Taipei Municipal Government and the Party Organization Committee resulting from increased awareness on the part of the citizenry, he has managed to get through these problems smoothly.

#### **Rather Diligent About Efforts Toward Grassroots Organization**

The Kuomintang and government actions of the chairman of the Taipei Municipal Party Headquarters are not simply a matter of individual traits, but more a matter of how the structure operates. Ch'en Chin-jang has maintained smoothness of operation between party and government, but the large ups and downs in the exercise of authority have really resulted from the insufficiency of both his political background and the weight of his position. Basically, he has fairly little backing in Taipei, so naturally his room for independence in dealing with problems is less than it might otherwise be. In the past more than 4 years, he has stressed the building of a grassroots organization, traveling everywhere in the city, and visiting the homes of precinct wardens, showing zeal in building up grassroots support in Taipei.

His current elevation to the position of deputy secretary will not merit a lavish send off since his political authority will be limited at the higher level. Some people also believe that in moving forward from behind the scenes, he will obviously have to make a much greater effort if the road is to be smooth. Since he is so lacking in support in Taipei, running for mayor of the city will be fraught with risks since there are all kinds of heroes in the city who are striving for mastery. Furthermore, his traditional factional strength in Yunghe District has yet to spread throughout the county, and since there has been a 4-year break in continuity in his political work, he will face a challenge from the whirlwind personalities in the People's Progressive Party, and "may find himself in the predicament of being left hanging." This weak chairman, who has been described as being generous to a fault and not sufficiently strict, faces an unpredictable future. Nevertheless, he now says, "my own advancement

requires that I accept Central Committee assignments, but I also have to have my own ideas and the courage to put them into effect." This is also bound to increase the variables in how he will exercise authority.

#### **Lifelong Maverick Role of Hu Ch'iu-yuan Portrayed**

40050066a Taipei TZULI WANPAO in Chinese  
25 Sep 88 p 2

[Article by Correspondent Chung Tsu-hao 6988 4371 6275: "Hu Ch'iu-yuan's First Open Visit To the Mainland of a Legislator Having Excellent Credentials]

[Text] The first open visit to the mainland of a legislator possessing excellent credentials, Hu Ch'iu-yuan [5170 4428 0626], incurred the severe punishment of Kuomintang cancellation of his party membership, adding a new dimension to the controversy over Hu Ch'iu-yuan's mainland trip.

While on the mainland, the 80 year old Hu Ch'iu-yuan openly called for the convening of a political consultative conference for the early unification of both shores of the Taiwan Strait. In the view of some people in Taiwan, Hu Ch'iu-yuan's expression of political views on the mainland was simply ridiculous and stupid in the extreme. Others who advocate unification felt that no matter whether Hu Ch'iu-yuan's proposal was realistic or feasible, it was basically within the realm of freedom of speech. Furthermore, the tenor of Hu Chiu-yuan's remarks was essentially no different than what he has been saying in Taiwan for the past 40 years or more. The Kuomintang's cancellation of his party membership on this account is bound to provoke an overreaction.

Hu Ch'iu-yuan earned a name for himself at an early age. When he was 15 years old, he passed the examination to enter Wuch'ang University, and he took on the job of doing editorial work for WUHAN P'INGLUN [WUHAN REVIEW], the official organ of the Kuomintang headquarters in Hupeh Province. He then graduated to a profession of writing about ideological, political, and literary matters.

#### **Joined the CPC Reading Society**

While studying at Wuch'ang University, for a time he belonged to the Chinese Communist Youth League's Reading Society. Later on during the "Nanking-Wuhan Split," [when Chiang Kai-shek split with the Communists] he opposed demonstrations instigated by the Youth League, for which he was punished by being "retained in the League under scrutiny," so he took the opportunity to get out of the Youth League.

When he was young, he was filled with nationalistic ideas. In 1930 he successfully passed the examination to enter Japan's Waseda University, and obtained official assistance funds from the Japanese government. At the

time of the Japanese seizure of Shenyang on 18 September 1931, he happened to have returned to China to visit his parents. Hu Ch'iu-yuan asked himself, "Can I return to the country of the enemy and forsake China for the sake of a diploma and some government funds?" In the end, he made up his mind to give up his return passage, and to give up the diploma that he would have received shortly. He made a living by writing in Shanghai where he vigorously preached resistance to Japan and national salvation.

In Shanghai, he joined the famed "polemic on freedom of literature and art," and the "polemic on the history of Chinese society," fighting hand to hand against leftist literary figures with powerful strokes, becoming famous as a writer throughout the country as a result.

Following the Marco Polo Bridge Incident of 7 July 1937, Hu Ch'iu-yuan became secretary of the Supreme National Defense Committee, and chief editor of CHUNGYANG JIHPAO [CENTRAL DAILY NEWS]. In 1940, he was elected a legislator, and on the eve of victory in World War II, Hu Ch'iu-yuan vigorously opposed China's negotiations with the USSR on the signing of the "Sino-Soviet Treaty of Friendship" under pressure from the United Kingdom and the United States. Publications refused to publish his articles, however, so he issued statements, and printed leaflets which he distributed everywhere. This offended the authorities, and he was stripped of all his official duties. But after the Sino-Soviet treaty was signed, the Russian army entered China's northeast, which ultimately led to the mainland becoming communist.

#### **Known Far and Wide for Espousal of Nationalism**

After arriving in Taiwan, Hu Ch'iu-yuan founded CHUNGHUA TSACHIH [CHINA MAGAZINE] during 1962 and 1963, which raised high the banner of nationalism and advocated democratic unification to save China. It brought together a number of people who shared this common goal to make CHINA MAGAZINE into a fortress of nationalism. In addition to discussing nationalism, CHINA MAGAZINE also consistently maintained a critical position with regard to the authorities exercise of government, and it even attacked the Kuomintang as being a "Second Class Taiwan Independence Party." The authorities concerned consequently looked askance at the magazine and repeatedly caused trouble for it.

Not only did he preach nationalism in words, but he also practiced it in deeds. When China and Japan broke diplomatic relations in 1972, and the government of Japan sent E. Shiina to Taiwan to offer an explanation in order to soothe the Chinese people, despite efforts to dissuade him, Hu Ch'iu-yuan demonstrated at Sung Shan Airport. This conduct by a man of his age and status showed his tenacity.

In April 1988, Hu Ch'iu-yuan and other unificationists founded the "Chinese Unification League" of which Hu

Ch'iu-yuan became "honorary chairman" by virtue of his many years promotion of the Chinese democratic unification movement, and the high prestige and universal respect he enjoyed.

#### **Personal Belief That the Time for Democratic Unification Is Ripe**

Hu Ch'iu-yuan has extolled nationalism and promoted the unification of China for 40 years on Taiwan. With the subtle changes in relations occurring on both sides of the Taiwan Strait, Hu Ch'iu-yuan believed that the time was ripe for him to journey to the mainland to promote democratic unification, so he decided to go to the mainland from the United States, both in order to visit his relatives and friends, and to have broad contacts with Chinese Communist officials and the people in order to exchange views on the unification issue.

Hu Ch'iu-yuan has been a lifelong romantic, separated by a deep gulf from both the Kuomintang and the Communist Party, and he has also been very much pushed around by both parties. During this trip to the mainland, the Chinese Communists did everything possible to win him over but didn't. He was severely punished by the Kuomintang; nevertheless, Hu Ch'iu-yuan would not change his stand on this account. He continues to maintain what he has advocated for the past 40 years, namely that one should say what has to be said, and do what has to be done. He seems indifferent to prevailing political resentments, and gains and losses.

Hu Ch'iu-yuan's daily life is extremely simple. Every morning, he goes for a walk after getting up. Though 80 years old, he is in good health, and his voice is very clear. His tall, trim frame, and his full head of silver hair lend him a rugged strength of character.

He has no hobbies or addictions. Except for three meals each day, he spends virtually full time reading or writing in his study. Whenever he hears of a good book, he always finds a way to have someone buy it for him so he can read it.

Hu Ch'iu-yuan also likes to chat with friends, and he particularly likes to meet with young people. He is both warm and candid, so many young people have come under his guidance and care; they regard Hu Ch'iu-yuan as both a teacher and a friend. All of these people have a position in academic, educational, newspaper, or literature and art circles, and they cluster around Hu Ch'iu-yuan to form a domestic strongpoint of nationalism.

#### **Much Food For Thought in the Kuomintang's Cancellation of Party Membership**

Throughout his life, Hu Ch'iu-yuan has stood for China's pursuit of peace, democracy, prosperity and strength, and unity. There is no fundamental difference between his beliefs and the basic position of the Kuomintang;

however, he desired on his visit to the mainland to use his declining years to promote the ideas that he has consistently held; unfortunately, the Chinese Communists used him for their own purposes causing the Kuomintang to draw the line quickly, canceling his party

membership. Was Hu Ch'iu-yuan being an old fool who let himself be used by the Chinese Communists and who did a lot for the united front, or was this a small tragedy in the confrontation between the Kuomintang and the Communists?

**'Nervous' Hong Kong Eager To Seek Outsider's Opinions**

40050040 Hong Kong PAI HSING [THE PEOPLE] in Chinese No 176, 16 Sep 88 pp 9-10

[Interview with Fang Lizhi 2455 0536 0037, Chinese dissident, and his wife, Li Shuxian 2621 3219 8300, in Hong Kong on 7 Sep 1988 by PAI HSING reporter Zhang Jiefang 1728 4814 7685: "Visitors Have No Answer to Hong Kong's Political Problem"]

**[Text] This Is Fang Lizhi's Fourth Visit to Hong Kong**

Fang Lizhi being a public figure, his latest visit proved more newsworthy than his expulsion from the CPC on charges of "bourgeois liberalization." The current trip is his first visit to Hong Kong, a land which the CPC both loves and hates and where "bourgeois liberalization" runs amok, since he was expelled from the party.

During his brief trip from 1 to 8 September, he could obtain only a superficial understanding of Hong Kong through cursory observations. However, a sharp observer, Fang Lizhi often grasps the salient features of a place within a short time. Touring Brazil, for instance, he got a taste of the inflation there while paying his hotel bill. His return visit to Naples, Italy, last year instantly fired his passion for freedom.

What then are Fang Lizhi's and Li Shuxian's impressions of Hong Kong? How do they evaluate the people? In the evening on 7 September, as their trip was coming to an end, the reporter of this magazine asked them to talk about these issues freely.

**How Does Hong Kong Struggle for Democracy?**

During a public lecture at Academic Hall on 7 September, Fang Lizhi was asked a succession of questions on Hong Kong and seemed to be at a loss as to what to say. Later he said frankly, "Since arriving in Hong Kong, I have talked much and listened little. I do not quite understand the developments in Hong Kong and hope to have more discussions with the intellectual community and students to exchange information."

What interests the public most is what went on in the "exchange" between Fang Lizhi and Hong Kong's "democratic faction." Was there really an exchange?

Fang Lizhi: So far I have not quite made out how Hong Kong is fighting for democracy today, what it is doing, and who is doing it. All I learned from the welcoming party (the party in the evening on 3 September organized by various groups to welcome him) was that those people belong to the "democratic faction." But I have no idea what they have done and what they propose to do. There was simply no time to ask, unfortunately.

Fang Lizhi: I know just too little about Hong Kong. When I went to Australia, they told me beforehand about the White Australia policy, why there was such a policy, and so on. As far as Australia is concerned, I managed to know a thing or two and understood their attitude. In the case of Hong Kong, of course I am aware of 1997, but how people assess and interpret it, I have no idea.

Li Shuxian: From reading Hong Kong magazines such as PAI HSING and CHENG MING, I gather that there are people here who are concerned about direct elections. But the man in the street is not interested and direct elections have proved elusive. With its highly developed economy, I think Hong Kong should be able to do better than it is doing now, and without relying on outsiders. The contrast is striking. The way Hong Kong people want to hear the views of outsiders, you would think they are looking for a panacea. But there is no panacea.

**On This Issue, I Should Do the Listening And You Should Do the Talking**

Whether lecturing or being interviewed, this eloquent professor kept running into this problem. As far as the Hong Kong situation is concerned, it is you, the people of Hong Kong, who should tell me. Without any background knowledge, how can I have any opinions?

This only made Fang Lizhi and Li Shuxian even more aware of the nervousness of Hong Kong people. The reporters explained to them the Hong Kong Basic Law, political parties, student movement, 1997... everything, but unfortunately only after he was repeatedly bombarded with questions on Hong Kong.

Fang Lizhi: Since 1983, I have felt there is a special tension in Hong Kong. In the past, however, such tension might have to do merely with a fast pace of life. Now a new dimension has been added: political tension. That is what strikes me most about Hong Kong. This place is high-strung both politically and economically. "Nineteen ninety-seven is coming!" Ha! Ha!

Li Shuxian: Coming from Australia as we did, we feel this tension even more acutely. Australia is airy, open, not as crowded, a deserted place after 2000. But Hong Kong people, reporters especially, are so enthusiastic that they keep "following us around."

Fang Lizhi: As soon as I stepped off the plane, they started asking me what I thought about 1997, looking for an instant answer. Actually everybody should know that a newcomer does not have much of an opinion on this matter. This shows how nervous the people are.

Li Shuxian: I have not done any survey to find out how much the average Hong Kong person understands the Basic Law and how many people have commented on it. But somehow I feel that they are not as sensitive as

students in China. Hong Kong always wants to hear what outsiders have to say. This seems a little abnormal. They always want to sound out this or that celebrity.

Reporter: Your hope was that after arriving in Hong Kong, you would be briefed on the situation here.

Fang Lizhi: And listen to the views of the people of Hong Kong, that's correct.

Reporter: Have you made such a request?

Fang Lizhi: How could I find the time? No time. Interviews alone took more than 2 and 1/2 days. I think I should have spent half that time being briefed. Only by asking questions can I get to know what concerns everybody. Yet I really do not know what you think about these issues.

For instance, today somebody asked a question about organizing political parties in Hong Kong. Is this something being planned, or are people actually putting together a party?

Reporter: It is being debated.

Fang Lizhi: This is exactly what I did not know. I was also asked about Hong Kong's student movement. I have no idea what kind of student movement you had in the past and how it is developing now. I do not have the slightest idea.

Li Shuxian: In 1986, students at Beijing University wanted to commemorate "18 September" and were suppressed as a result. They asked, "If Hong Kong students can commemorate '18 September,' why can't we?"

Reporter: Then Hong Kong students have proved somewhat inspirational after all.

#### **Poor Hong Kong People!**

Not many Hong Kong people, not to mention Fang Lizhi and Li Shuxian, understand the complexity of Hong Kong politics. After mixing with Hong Kong people for a week, however, have they acquired a little insight into our general psychology? They are indeed sharp observers and hit the nail on the head when it comes to analyzing the local people's national feelings. Maybe this is because both Hong Kong people and mainlanders are Chinese. On the other hand, they could not but be deeply touched by the fact that the two think so differently about nation and nationality.

Fang Lizhi: Somebody asked me a question about national feelings. I think the people of Hong Kong have no sense of nationalism holding them together. They are so-called "transients" looking for opportunities to make a buck.

Li Shuxian: I was chatting with some people and the notion of Hong Kong "having freedom but not democracy" came up. We also discussed the rule of law in Hong

Kong. However, imagine for a second we were Hong Kong people and we can then realize that they are quite pitiable, dreading 1997 even as they hate British colonial rule. The Chinese and the British think differently and the people of Hong Kong have a tough time being caught in the middle.

For mainland academics like us, cultural identity is no problem wherever we go. Some young people back home say they dream the American dream. Life is hard in China these days, and many people want to get out. But when we got to Australia, we dreamed the Chinese dream every day. People from the mainland have a sense of cultural identity. Not so the Hong Kong people. I sympathize with their situation.

#### **Students Unresponsive to Him**

During his visit in Hong Kong, Mr and Mrs Fang Lizhi spent most time meeting with people from the academic circles and the press and with students. He also attended several political and physics seminars and conferences. Of all the events in their crowded schedule, which did they find most satisfying?

Regrettably, Mr and Mrs Fang Lizhi, who are most keen to get to know students, felt that students were not responsive to them.

Fang Lizhi: On a theoretical level, the best event was the discussion this morning (Note: the seminar organized by the Center for Asian Studies of the University of Hong Kong.) The discussion on democracy in China, Taiwan, and Hong Kong put together by the Institute of Chinese Cultural Studies of the Chinese University of Hong Kong is also quite good. The welcoming dinner was passable, lively.

Li Shuxian: I think the dinner was a success.

Fang Lizhi: In contrast, the students' response was not so good. I believe language is a problem. Today (Note: he was referring to his public lecture entitled "Scientific Research and the democratic movement in China" delivered at Academic Hall,) for instance, many students could not figure out what I was saying. I could tell whether or not they understood. There were times during the lecture when they should respond and laugh. But there was no response today.

Li Shuxian: I asked a female student sitting next to me off-stage whether she understood what he was saying. She said she understood half.

Fang Lizhi: My estimate is that the students understood only one third, which raises the question whether or not we should have an interpreter at this sort of occasion. When I talked to students the first day, only a handful of them had any response. For instance, I told this joke about Deng Xiaoping advertising for me. No response

whatsoever! Back home, this joke was tried and true. Never failed to bring down the house.

Naturally, people from the academic community do not have a language problem. Their response was strong.

#### **Hong Kong Trip Still Very Fruitful**

Apparently Fang Lizhi has given more than he has taken during his visit to Hong Kong. While a public figure inevitably runs into this kind of situation, it would still be unfair to him if the deficit is too big. Fortunately, both of them feel that the trip has been very fruitful.

Fang Lizhi: This trip has been very fruitful even though there was so little time.

Li Shuxian: I think it has been very fruitful. People in the country should emulate the visiting scholar program of the Chinese University of Hong Kong and set up a fund, not necessarily to organize scientific research, but to invite people of different styles to visit China at regular intervals. This would liven up the atmosphere on campus, on the one hand, and make the invitee feel that he has done something substantive, not just scientific research, on the other. It would be very nice if there were no language barrier and if we were able to stay longer, know the students better, and have more meetings with the teachers.

Fang Lizhi: What we got out of the trip is that we came in touch with a lot of people. Last time we were here, we came in contact with the physics community. This time, we came in touch with Hong Kong society at large. A complete understanding is out of the question of course, but at least we got to know a little more.

Li Shuxian: One impression I got in Hong Kong this time is that the quality of services here is the best in the world. In the Shanghai dialect, it is "meticulous," super. The workers are extremely earnest and conscientious. In a restaurant or wherever, the service is most attentive. In China, countless models have been commended, to no avail. They should come here and take a look. Hong Kong people lead a better life and fully deserve it: they work hard for it. They are also highly disciplined. On the subway, for instance, there are few attendants around, but people discipline themselves. The diligence, work ethic, and sense of discipline of the people of Hong Kong are rare in the world.

Since I am in education, I pay particular attention to educational issues. I think the people of Hong Kong are civilized and that has something to do with the educational standard. I have been told that many people attend night school and study hard. This is because a diploma is very useful: as soon as one finishes school, one is promoted and given a raise. This is something the mainland should learn from. Somebody observes that China is the only country in the world today where a taxi driver is paid more than a university president. Zhao Ziyang himself says he is aware of that. As the situation develops, the gap will only become wider and wider.

Is this inherent in modernization? Not in other countries. We talk about respecting knowledge, but mere lip service is useless. If we respect knowledge and improve the overall cultural level, then the quality of labor will go up as well. In the past, propaganda on the mainland described Hong Kong as a "den of iniquity." It was totally wrong.

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